ENTY-FIFTH REPORT

ACCOUNTS COMMITTEE

(1993-94)

(TENTH LOK SABHA)

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DISINVESTMENT OF GOVERNMENT SHARE-HOLDING IN SELECTED PUBLIC SECTOR ENTERPRISES DURING 1991-92

MINISTRY OF INDUSTRY
(DEPARTMENT OF PUBLIC ENTERPRISES)

Presented to Lok Sabha on 29 April, 1994
Laid in Rajya Sabha on 29 April, 1994

LOK SABHA SECRETARIAT
NEW DELHI

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PUBLIC ACCOUNTS COMMITTEE
(1993-94)

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3. Shri R.K. Chatterjee — *Deputy Secretary*
4. Shri P. Sreedharan — *Under Secretary*

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*Ceased to be a Member of the Committee on completion of her tenure in Rajya Sabha w.e.f. 2 April, 1994.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventy-Fifth Report on the Report of the Comptroller & Auditor General of India for the year ended 31 March, 1992 (No. 14 of 1993), Union Government (Civil) relating to Disinvestment of Government shareholding in selected Public Sector Enterprises during 1991-92.

2. The Report of the C&AG of India for the year ended 31 March, 1992 (No. 14 of 1993), Union Government (Civil) was laid on the Table of the House on 7 May, 1993.

3. The Union Government announced in their statement on Industrial Policy on 24.7.1991 and in the Union Budget for 1991-92 presented on the same day that apart from revitalising the public sector, a part of the Government shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers so as to raise resources and encourage wider public participation. The Union Budget for 1991-92 provided for receipts of Rs. 25000 crores on this account. In pursuance of the above, Government carried out partial disinvestment in two phases in December, 1991 and February, 1992 and realised a sum of Rs. 3038 crores from the sale proceeds of the shares held by Government in 30 selected PSEs. The disinvestment programme was carried out by the Department of Public Enterprises (DPE) in association with the Ministry of Finance and other Government agencies concerned. The audit review based on findings noticed in the course of test audit of the records of the DPE and further examination of the subject by the Committee have revealed a number of inadequacies and disquieting features in the implementation of the disinvestment process.

4. Briefly, the shortcomings/irregularities were selection of some PSEs for disinvestment despite the pleas made by some of them/certain administrative Ministries for exclusion; delay in finalisation of PSEs for disinvestment and failure to generate investors' enthusiasm; inadequate functioning of Suresh Kumar Committee appointed for formulating the guidelines for valuation of shares; infructous expenditure incurred in commissioning the services of private consultant; incorrect method of "bundling" in contravention of Government decisions; haste in accepting uncompetitive bids; re-fixation of reserve prices to accommodate those bids; failure to appraise the Cabinet of the effect of the revised reserve prices *vis-a-vis* earlier reserve prices; failure to incorporate claw-back provision; forward sale of shares before listing and above all failure to achieve the pronounced objectives.

5. The Committee are of considered view that most of the problems/ shortcomings could have been avoided if the Government had not chosen to push through the disinvestment with hurry to raise the resources by the end of December, 1991. The Committee have not been explained to their satisfaction of the extraordinary pressures which necessitated such grave urgency resulting in incalculable losses due to under-realisations on the sale of the PSE shares. The Committee have been convinced that the lack of transparency in the manner in which the whole exercise was undertaken requires to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same.

6. The Audit para was examined by the Public Accounts Committee at their sittings held on 12 October, 22 and 23 November and 13, 14 and 22 December, 1993. The Committee considered and finalised this Report at their sitting held on 26 April, 1994. Minutes of the sittings form Part II* of the Report.

7. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix V to the Report.

8. The Committee would like to express their thanks to the Officers of the Ministries of Finance and Industry (Department of Public Enterprises) for the cooperation extended to them in giving information to the Committee.

9. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
27 April, 1994
7 Vaisakha, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

* Not printed. One cyclostyled copy laid on the Table of the House and 5 copies placed in Parliament Library.

REPORT

I. INTRODUCTORY

(A) Level of investments in PSEs

1. The Industrial Policy Resolution of 1956 gave the public sector a strategic role in the process of development. In pursuit of this objective, massive investments have been made over the past four decades to build a public sector which had a commanding role in the economy. The total investment in 246 Public Sector Enterprises as on 31.3.1991 was Rs. 113896.13 crores. This comprised equity of Rs. 43245.00 crores and loan of Rs. 70651.13 crores. Out of total loan amount of Rs. 70651.13 crores, foreign loan, including deferred credits, amounted to Rs. 7641.64 crores and internal loans Rs. 53009.49 crores. As against this the profit earned by PSEs during 1990-91 was Rs. 2367.74 crores and the dividend paid was a mere Rs. 364.86 crores.

While one of the objectives envisaged in the Industrial Policy Resolution, 1956, for public sector was *inter alia* to earn return on investment and thus generate resources for development, and while, in accordance with the policy, investment from the exchequer in PSEs witnessed consistent growth from Rs. 29 crore in the first five year plan to Rs. 99,329 crore in 244 PSEs by the end of the 7th five year plan and to Rs. 113,243 crore in 246 PSEs as on 31.3.1991, return on the investment remained too low to conform to even the most minimum norms of return in commercial activities. As in 1989-90,. the ratio of Net Profit to Capital Employed showed an average of 4.5% which was an increase from 2.73% registered in 1985-86. Relevant details from the Monograph of performance of Central PSEs is enclosed for ready reference, (Appendix-I). Out of 244 PSEs existing at the end of the 7th five year plan, 131 PSEs earned on average a profit of 8% 98 PSEs registered a loss of over 16%. As many as 58 PSEs assumed the status of sick and chronically sick enterprises with their accumulated loss causing invariably a drainage of scarce financial resources from the exchequer every year.

(B) Genesis of the proposal of disinvestment

2. Recognising the importance of the public sector as a whole, Government decided to bring out a White Paper on the Public Sector. An announcement to this effect was made in the President's Address to Parliament on 12 March, 1990. Accordingly, the Department of Public Enterprises (DPE) submitted a note on 'White Paper on Public Sector' to

the Cabinet Secretariat in May, 1990 for consideration of the Committee of Secretaries (COS). This not had, *inter-alia* suggested:—

> "Where the nature of the activity is such that it does not necessarily call for public ownership or where public investment might have been called for initially but circumstances have since changed, or where some of the invested resources can be usefully recouped for alternative investment elsewhere, Government will consider offering a part of the equity to the employees or to the general public, without diluting the public character of the enterprises. This will be done after careful examination on a case by case basis on an experimental and selective basis. Government will also consider need for full divestiture in suitable cases where the public enterprise has lost its public purpose."

3. The COS considered the note prepared by the DPE in June and July 1990 and suggested that the DPE might initially make a presentation on loss making Public Sector Undertakings (PSUs) to the Council of Ministers for fuller appreciation of the need to restructure PSUs and steps could be taken thereafter to implement some of the harder options closure/ divestitures of the requisite number of PSUs. Accordingly, the DPE prepared a paper on 30 July, 1990 for presentation before the Cabinet mentioning, *inter-alia*, therein the need for some immediate measures to improve the efficiency and productivity of the PSEs and considering options like partial/total divestiture or closure in cases where the course of action did not succeed in improving performance. While suggesting a number of steps for improving the efficiency of the loss making PSEs, the note of the DPE also mentioned that "only as a last resort where turnaround is not possible, closure or divestment, preferably to workers, should be considered in order to improve the overall public sector picture."

4. The presentation was subsequently made on 31 July, 1990 before the Council of Ministers by the DPE and it was followed by a commentary by the Ministry of Finance (MOF). According to minutes of that meeting, the Council of Ministers desired that certain innovative suggestions should be considered for raising the resources for PSEs including loss making enterprises in need of revamping. In this context, the Council of Ministers specifically directed that the "suggestion made by the MOF for a Public Sector Units to be promoted by the Unit Trust of India (and other public sector financial institutions/banks) which would sell units to the public and invest the proceeds in a basket of shares of both loss-making and profit-making undertakings so as to make the overall return attractive, might be worth examining further."

5. Later, during the year 1990-91 itself when the fiscal deficit reached very high levels, the possibility of raising resources through partial disinvestment in selected PSEs came to be considered and technical paper

seeking directions and guidance of the Cabinet Committee on Political Affairs (CCPA) was prepared in the Department of Economic Affairs in February, 1991. The CCPA gave general approval to pursue the approach of disinvestment with all operational details to be worked out later. Thereafter, the first public pronouncement of the Government decisions to disinvest upto 28 per cent of its equity in selected PSEs was made on 4th March, 1991 at the time of presentation of Central Government's Interim Budget for 1991-92. In his speech, the then Finance Minister stated:

> "It has been decided that Government would disinvest upto 20 per cent of its equity in slected Public sector undertakings, in favour of mutual funds and financial or investment institutions in the public sector. This disinvestment, which would broad-base the equity, improve management and enhance the availability of resources for these enterprises, is also expected to yield Rs. 2,500 crores in the exchequer in 1991-92. The modalities and details of implementing this decision, which are being worked out, would be announced separately."

6. Subsequently, the Government announced in their statement of Industrial Policy on 24th July, 1991 that a part of the Government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

7. On the same day, the Finance Minister while presenting Union Budget for 1991-92 stated:

> "....the Government has decided to disinvest upto 20 per cent of its equity in selected public sector undertakings in favour of mutual funds and investment institutions in the Public Sector, which is expected to yield Rs. 2500 crores to the exchequer during the current financial year. This disinvestment would broad-base the equity, improve the management and enchance the availability of resources in these enterprises."

(C) Sale of shares of selected PSEs in 1991-92

8. In the aforesaid background, the Government of India sold the shares of selected PSEs to certain financial institutions/mutual funds/banks during 1991-92 in the two phases of disinvestment carried out in December, 1991 and February, 1992 and realised a sum, of Rs. 3038 crores from the sale proceeds of its share held in 30 selected PSEs. This disinvestment of Government shareholding during 1991-92 was carried out by the Department of Public Enterprises (DPE) in association with the concerned PSEs and their administrative Ministries/Departments, Ministry of Finance and the Cabinet Secretariat.

(D) Audit Report

9. This Report is based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1992, No. 14 of 1993, Union Government (Civil) containing a review on 'disinvestment of Government shareholding in selected Public Sector Enterprises during 1991-92' which is appended at Appendix II to this Report. The findings contained in the review are those which came to the notice in the course of test audit.

(E) Report of JPC

10. The subject of disinvestment of Government shareholding in selected Public Sector Enterprises had also engaged the attention of the "Joint Committee to enquire into irregularities in securities and banking transactions". The JPC, in para 16.50 of their Report had, however, observed:

> "....The Committee has not examined this question of disinvestment of PSU shares at length. The Committee note that the method and procedure adopted for disinvestment of PSU shares had been adversely commented upon by the C&AG in the Report entitled "Disinvestment of Government shareholding in selected public sector enterprises during 1991-92" (for the year ended 31st March, 1992) and this has been taken up for examination by the Public Accounts Committee."

11. The disinvestment process basically involved three stages, *viz.*, (a) the selection of companies to be offered, (b) the pricing of the equity, and (c) the logistics of the disinvestment mechanism. The various aspects arising out of disinvestment exercise undertaken during 1991-92 in the light of the Audit Report are dealt with in the succeeding paragraphs.

II. SELECTION OF PSEs

12. There were 244 as on 1.4.1990, of which 31 PSEs were selected for disinvestment of shares during 1991-92 by applying what was stated as a theory of exclusion, which as per the records of the Department of Public Enterprises was as follows:—

(a) Out of 244, 11 PSEs were under construction.

(b) Out of 233 operation PSEs, 126 had their net asset value (NAV) either negative or less than the face value of share.

(c) Out of remaining 107, 3 PSEs were Section-25 companies.

(d) Out of remaining 104, 38 companies were insignificant in size.

(e) Out of remaining 66, 10 PSEs were such where current level of profitability was very low.

(f) Out of remaining 56, 10 PSEs were excluded due to strategic reasons.

(g) Out of remaining 40, 9 PSEs were later excluded at various levels due to some specific reasons."

13. According to the "Note on Disinvestment during 1991-92" recorded by the Secretary (DPE), the final selection of PSEs for disinvestment during 1991-92 was "limited to those companies which were, *prima facie,* such that the investment market could appreciate without much difficulty and price reasonably". The final list of 31 companies offered for disinvestment in December, 1991 and February, 1992 was also stated to have been selected in consultation with the various administrative Ministries supervising the public sector undertakings and on the basis of performance of PSEs available upto the year 1989-90.

14. On an enquiry from the Committee as to who made the selection of the PSEs for disinvestment, Shri Suresh Kumar, the then Secretary (DPE) during evidence stated:—

"This was the Steering Committee."

15. Asked about the members of that Committee, Shri Suresh Kumar deposed:—

" Shri A.N. Verma — At that time the Finance Secretary was Shri Shukla. Shri Nayar was the Chief Economic Adviser. There were also Shri Montek Singh Ahluwalia and Shri Suresh Mathur."

16. The Committee have been informed that the DPE had initially recommended 41 PSEs for purpose of disinvestment during 1991-92. The list of 41 PSEs was placed before CCEA on 24.11.1991. The note recorded in this connection on 20.11.1991 *inter alia* stated that the selection of PSEs was proposed to be done by the DPE in close consultation with the concerned PSEs, the Administrative Ministries, the Planning Commission and the Ministry of Finance. The Cabinet Committee on Economic Affairs (CCEA) in the meeting held on 24.11.1991 decided to exclude M/s. Uranium Corporation of India Limited from the list of 41 PSEs selected for disinvestment. In respect of other two PSEs, namely, Air India and India Tourism Development Corporation, the CCEA directed that separate proposals be brought. In this connection, the following extracts of the note recorded by the then Secretary, DPE on 4.12.1991 are relevant:—

"***** It is understood that CCEA has approved a list of 38 PSEs out of those 41 for disinvestment during 1991-92. **** Meanwhile some of the administrative ministries have suggested exclusion/inclusion and even variation in level of disinvestment of some of the PSEs in the disinvestment list on various grounds. Department of Public Enterprises intend to initiate discussions immediately with the concerned administrative ministries/Departments, the Ministry of Finance and the PSEs for any change in the

names of PSEs in the disinvestment list and the level of disinvestment, if required. In order to meet the tight time schedule for the first phase of disinvestment to be completed well before the end of December, 1991, it is required that any such modification in the disinvestment list or suggested level of disinvestment or any other parameters may be done in the shortest possible time. This is possible only if the DPE is authorised to make such changes after seeking approval of P.M. through F.M. and not go to the CCEA again. This is for approval of F.M. and P.M....."

17. Subsequently, seven more PSES were excluded from the list for the reasons give below:—

Sl No.	Name of the PSE	Reasons for exclusion
1.	Tele-Communication Consultants India Limited	In respects of these organisations, the consultant appointed by the Govt. stated that it might not be feasible to find a suitable value for these consultancy enterprises. Hence they were excluded.
2.	Engineers India Ltd.	
3.	Rail India Technical & Economic Services Ltd.	
4.	Metallurgical & Engineering Consultants (India) Ltd.	
5.	Hindustan Vegetable Oil Corporation Ltd.	The Company went on incurring losses till 1990-91 and as per their projections, they would incur losses during next 6 years. Their share value was coming out very low.
6.	Bharat Dynamics Ltd.	On strategic reasons
7.	Lubrizon India Ltd.	There was no further scope for disinvestment in this Enterprise as the Govt. held only 60% of Equity, the rest being with foreign parties.

18. According to audit, the list of 31 PSEs was drawn up in the first week of December, 1991. Of the 31 PSEs, 8 were categorised as 'Very Good', 12 as 'Good' and 11 as 'Average'. The categorisation was made on the basis of Net Asset Value (NAV) per share *vis-a-vis* face value of Rs. 10. The PSEs whose NAV was Rs. 50 and above per share were categorised as 'Very Good', between Rs. 20 to Rs. 49 per share as 'Good' and between Rs. 10 to Rs. 19 as 'Average'.

19. During evidence, the Committee were informed by the Finance

Secretary that "it was a deliberate choice to exclude the sick and loss-making public sector undertakings."

20. The audit review reveals that some of the Ministries and Departments of Government of India as well as PSEs had suggested for exclusion of some PSEs from the proposed disinvestment and the justification given by the Deptts/PSEs for their exclusion is as indicated below:—

Sl. No.	Name of PSE	Justification for exclusion
1.	Indian Petrochemicals Ltd. (IPCL)	These PSEs were intending to raise funds directly from the market by issue of fresh equity shares which taken together with the proposed disiventment would result in Government's shareholding falling below 51 per cent.
2.	Cochin Refineries Ltd. (CRL)	
3.	Andrew Yule & Co. (AY)	
4.	National Aluminium Co. (NALCO)	The volatility of international price of aluminium and fluctuations in profitability were quite low at that time.
5.	Hindustan Zinc Ltd. (HZL)	Full scale commercial production was expected in a year or two with the commissioning of a new Project costing Rs. 617 crores in October, 1991 which would increase the share price of the enterprise in future.
6.	National Fertilizers Ltd. (NFL)	Profit of these enterprises in 1990-91 was low which was going to increase substantially in 1991-92 and as such disinvestment should be considered after the finalisation of accounts for 1991-92.
7.	Fertilizers and Chemicals (Travancore) Ltd. (FACT)	
8.	Steel Authority of India Ltd. (SAIL)	The valuation of shares under the three methods would not reflect the real values of the SAIL and Government would not get fair price till 1994-95. Decontrol of Steel distribution and pricing as well as modernisation of the plants was likely to improve profitability.

21. The audit review further revealed that these PSEs were included in the first round of disinvestment and it was only in the second round that some of the companies were excluded on the advice of Industrial Credit and Investment Corporation of India (ICICI).

22. On being enquired about the reasons for ignoring the advice of the Administrative Ministries/Departments/PSEs for exclusion of some of the PSEs from the proposed disinvestment DPE in a note stated:—

> "In respect of the PSEs whose shares were sold, the concerned valuation sheets were approved and duly authenticated by the respective company and the administrative Ministry. The CCEA also approved the list of PSEs to be disinvested."

23. Explaining this point further, DPE in their subsequent note stated:—

> "Although in the initial stage, during discussion for selection of PSUs for disinvestment, some companies like IPCL, CRL, Andrew Yule, NALCO, HZL, NFL, FACT and SAIL had expressed reservations about their shares being disinvested, later on, the CCEA note for disinvestment was approved by the individual Ministries and they had agreed to the programmes of disinvestment except in case of Ministry of Steel and the Ministry of Mines. The views expressed by the Ministry of Steel and the Ministry of Mines were duly reported to CCEA vide Note dated 20.11.1991 submitted by Ministry of Finance, After due consideration of these views, the CCEA had approved for disinvestment upto 5 per cent in the case of SAIL and had authorised DPE to sell the shares in case of PSUs under Ministry of Mines (*viz.* NALCO and HZL)."

24. On being specifically enquired about the precise reasons for rejecting the suggestions of the Minstries/PSEs for excluding some of the PSEs from proposed disinvestment during 1991-92, the Finance Secretary during evidence stated:—

> "In the case of certain enterprises, the administrative Ministries had suggested that these shares need not be sold for different reasons. This was considered and in one or two cases the sale was held back. In other cases, a conscious decision was taken to put the proposals before the Cabinet saying that the sale should be made. As far as the shares are concerned, the enterprises do not own the shares. The view of the enterprises on the issue of whether the Government should sell the shares is irrelevant. It is the view of the Ministry that counts. The Government had got the absolute right to do anything it wants."

25. Explaining that the suggestions made by the Deptts./PSEs were given consideration, the Finance Secretary stated:—

> "The Note to the Cabinet had been circulated to all the Ministries. As far as the view of the Ministry is concerned, it was on whether the enterprises whose shares are sold should be represented in the Cabinet. In a mechanical kind of way, there is a tendency for individual enterprises to tell us not to sell. Our concern was that should stand up before the Cabinet. All the Ministers concerned had a chance to argue either in favour or against it. It is a Cabinet

decision. We had specifically brought to the notice of the cases of BEL, BEML, SCI, DCI, etc., whether they should also be retained in the respective bundles for sale. The Ministry of Defence had some reservations. He had discussed with the Finance Minister and agreed to withdraw that. They had to be retained. There is no reason why these should be excluded from the Goverment decision. These points were brought to the notice of the Cabinet.

26. The summary of the 'Note for final approval of the Government for disinvestment of Government holdings in selected PSEs during 1991-92' dated 24th December, 1991 as made available to the Committee, *inter-alia,* also reveals that:—

"In respect of MTNL and VSNL, though the Department of Telecommunications had initially raised objection to the sale of shares on the plea that the restructuring of these entities was under consideration, it is felt that the shares of these companies cannot be taken out of the bundles. The matter was discussed between the Finance Minister and the Minister for Communications and the latter withdrawn the objection."

III. VALUATION OF SHARES OF PSEs

(a) Committee for fomulating the guidelines for valuation of shares of PSEs

27. On 19th August, 1991, the Ministry of Finance constituted a 'Committee for formulating the guidelines for valuation of the shares of the PSEs' with the following composition:—

1.	Shri Suresh Kumar, Secretary, DPE	*Chairman*
2.	Secy./Addl. Secy. in 2/3 Administrative Ministries in charge of Public Sector Undertakings	*Member*
3.	Chief Adviser (Cost), Department of Expenditure	*Member*
4.	A representative of Deptt. of Expenditure	*Member*
5.	Shri N. Vaghul, Chairman & M.D., ICICI, Bombay	*Member*
6.	Shri Y. Venugopal Reddy, J.S. (ECB), Deptt. of Economic Affairs	*Member*
7.	Shri H.N. Gupta, Director (Inv.), Deptt. of Economic Affairs	*Member*

28. The Valuation Committee was expected to submit its report to the Finance Ministry by 6th September, 1991.

29. The Valuation Committee included the following Secretaries as its Members:—

(a) Shri M.S. Gill, Deptt. of Chemicals and Petrochemicals

(b) Shri N. Vittal, Deptt. of Electronics

(c) Shri Ashok Chandra, Deptt. of Petroleum and Natural Gas.

30. The Valuation Committee co-opted the following Chairman and Managing Directors (CMDs) of Central PSEs as its Members:—

(a) Shri R.C. Bhargava, Maruti Udyog Limited

(b) Shri R.K. Gajree, Bharat Petroleum Corporation

(c) Shri Jayanta Ray, Andrew Yule & Co. Ltd.

(d) Shri Hasmukh Shah, Indian Petrochemicals Corporation Ltd.

They also co-opted Shri Rakesh Mohan, Economic Adviser in Ministry of Industry and Shri B.B. Goel, Dy. Director (Cost) in the Department of Public Enterprises.

31. Although the Department of Expenditure had informed the Valuation Committee that the Department would be represented by the Financial Adviser of the Administrative Ministry relating to the PSEs under valuation, the Valuation committee observed in its report that "since the Committee had very little time to finalise its recommendations and also the PSEs under valuation were not finally approved, it was difficult for the committee to include any such Financial Adviser as a representative of the Department of Expenditure."

32. The Committee enquired whether the Secretary (DPE) agreed with the audit observations that the expertise of the Department of Expenditure could not be availed of in the Committee for formulation of valuation guidelines. In his reply, he stated:—

> "No , not entirely, Sir because the audit has said that because only 41 enterprises were proposed for disinvestment and ultimately 31 enterprises were selected, the number of FAs would have been very little. This is the position as it emerged in December, 1991 when disinvestment was finally decided. When the Committee met in August, 1991, there was no list of public enterprises which were to be disinvested. This entire procedure of selecting the enterprises to be disinvested were subsequent developments. So, if the Committee had to include FAs in its deliberations in August and September, it would have to include FAs of every Ministry not knowing which of the enterprises would be ultimately taken up for disinvestment. So, I only partly agree with the C&AG. Of course, it is possible for the Committee to include all the FAs but the number could have been 25-30."

He further added:

"Even though the Committee did not include the FAs as suggested by the Department of Expenditure, it so happened that the Department of Expenditure did not go unrepresented in the Committee because the Chief Advisor (Cost) was a member."

33. The Valuation Committee held two sittings on 26th and 30th August, 1991 and submitted its report to the Ministry of Finance on 5th September, 1991. However, the final report was signed by only four (Shri Suresh Kumar, the Secretary in the Ministry of Petroleum & Natural Gas, Chief Advisor (Cost) of Deptt. of Expenditure and Joint Secretary in the Deptt. of Chemicals and Petrochemicals) out of 14 members of the committee including the coopted members. Pertinently, one of the signatories was not even a member of the committee and signed on behalf of the Secretary of Deptt. of Chemicals and Petrochemicals. The Committee therefore, desired to know whether the report was circulated to the members and any meeting called for adoption of the final report. In his reply during evidence, Shri Suresh Kumar, the then Secretary (DPE) deposed:—

"No meeting was called to sign the reports.....No special meeting was called of those people to adopt the report. The main Committee consisted of only seven people out of which four were from Finance Ministry. So far as I am concerned, the Finance Ministry has signed. All the remaining people signed except representative from ICICI, Bombay because he never attended any meeting."

He added that the report was adopted by circulation.

34. On being enquired as to wherefrom he concluded that signature of any one representative from the Ministry of Finance would do for the purpose of adoption of valuation committee, Shri Suresh Kumar the then Secretary (DPE) replied:—

"It was my own. But, by inference, this is a report which is going to the Finance Ministry, if they have any objection, they will say that...."

35. In reply to another question whether he did not consider it necessary to obtain the signatures of the co-opted members. Shri Suresh Kumar, the then Secretary (DPE) deposed:—

"Yet, one was in Bombay and other was in Baroda. I would not waste my time in circulating it to them. So, I considered it not necessary to get their signatures."

In this context, the witness further deposed:—

"When we decided on disinvestment, we were not doing a normal routine type of government activity. No one was willing to do it. And this has been the experience of all developing countries. Nobody prepares himself for disinvestment. Everybody is unwilling to take part. Especially, the bureaucrat and the public sector chief were unwilling because they did not want their comfortable lives to change. So, the only thing left is to do your job and advise the Government on how to go about it."

36. According to the information made available to the Committee, no recorded minutes of the two sittings of the Valuation Committee or its deliberations are available either in DPE or Deptt. of Economic Affairs. In reply to a question as to how the suggestions made by the various members of the Valuation Committee were taken into account before making final report, DPE stated in a note that "the suggestions made by the members of the Committee were discussed during the deliberations of the Committee."

37. The Committee's examination however, reveals that some of the suggestions, which were made by various members well before finalisation of the report were not reflected in the final report of the Valuation committee. Some such suggetions are reproduced below:—

(i) *Suggestions made by Shri R.C. Bhargava (CMD, MUL) in his letter dated 27th August, 1991:*

Shares would be offered not only to mutual funds and merchant banks but also to all approved share brokers in stock exchanges, public limited companies quoted in the stock exchanges approved pension funds, etc. offering the shares to a wider range of bodies would bring about more competition and therefore, better prices. It would prevent cartelisation. Government may also consider whether a limit may be placed on the number of shares which could be bid for by anyone of these institutions as such an arrangement would lead to a wider dispersal of shares.

(ii) *Suggestions made by Shri H.N. Gupta (Director, DEA) in his letter dated 28th August, 1991:*

In case of Public Sector Enterprises it is likely that the book value of the shares may be very low and the assets have to be revalued at current prices or on replacement value basis for the purpose of calculating the NAV of the shares. In this context, it is relevant that we do not allow revaluation of assets for the calculation of NAV under our existing guidelines. In case it is not considered feasible to revalue the assets quickly, we could as an alternative consider reducting the weightage of NAV component for 50% (CCI norms) to 25% for calculating the Fair Value.

(iii) *Suggestions made by Shri C. Ramaswamy (Chief Adviser, Cost) in his letter dated 29th August, 1991:*

(i) The rates of capitalisation for say the first ten among the best public sector units cannot be less than the average capitalisation rates obtaining in the first ten best private sector gilt-edged shares. (ii) In view of the absence of market value it may be advisable to transfer the shares to selected mutual funds/public financial institutions at a reasonable value with a stipulation that as and when these shares are offered to the general public 90% of the difference of the price gained by all these institutions would be transferred back to the central exchequer.

(iv) *Suggestions made by Shri R.K. Gajree (CMD, BPCL) in his letter dated 30th August, 1991:*
The short term solution if the Government have to raise the intended amount before 31.3.1992 would be to raise a loan from the financial institutions against the collateral of shares which would in due course be offered to all parties including the financial institutions and the loans be repaid.

38. On being asked as to why the suggestions made by various members of the Valuation Committee were not incorporated in its report, Shri Suresh Kumar, the then Secretary (DPE) stated:

"The format of the report is that ideas were floated and some were accepted. May be something was left out. But what was left out may not be crucial."

39. A scrutiny of the Valuation Committee report reveals that the following main points were made therein:—

(i) Net Asset Value (NAV) is the minimum that has to be realised on disposal of the shares.

(ii) The Capitalisation rate to be adopted should not be more than 8% (equivalent to P/E ratio of 12.5%). However at the time of valuing the shares of the PSEs it would be worthwhile to compare the P/E ratio obtained in comparable firm(s) in private sector and adopt it to determine the market price.

(iii) The CCI guidelines do not provide for finding value of equity share of a company based on Discounted Cash Flow Method. However, it was felt by the Committee that it should be necessary to find true value of its capacity to maintain earnings in the future based on net cash accruals also, in addition to NAV and PECV.

(iv) The Committee decided that in order to fetch a best possible price, the fair value may have to be equivalent to the highest value among the different values arrived at using different methods (out of which the value by DCF method could remain as a guide in place of market price as in the CCI guidelines). This would ensure optimum realisations. However, this fair value may also have to be adjusted depending upon the mode of sale.

(v) The Committee recommended constitution of an empowered Committee to finally decide fair value of shares.

(vi) It would be important to emphasise that however elaborate and detailed the guidelines may be, the process of valuation cannot possibly be reduced to a uniform and inflexible arithmatical exercise. In the ultimate analysis valuation will have to be tampered by the exercise of judicious discretion and judgement taking into account all relevant factors.

40. The Valuation Committee had also observed that they had been made aware that besides the various method of valuation of shares of PSEs discussed in the report, there were a few more models for equity price determination which were being used by various expert agencies such as CRISIL, starategic Consultants Pvt. Ltd., Coopers and Lybrand Pvt. Ltd. etc. The Committee had, *inter-alia,* recommended that these agencies could also be consulted before finalising the offer price.

41. In reply to a question about acceptance of the recommendations of the Valuation Committee, the Finance Secretary during evidence stated:

> ".....This Committee report was not processed separately recommendation by recommendation. We used it as an input alongwith our own discussions and we evolved a policy. We compared the policy with the recommendations and we can give you the difference between the two. But it was not a Committee report which was taken up to the Cabinet as a Committee report. It was only an input into the formation of a policy."

42. Replying to another related issue, the Finance Secretary deposed:

> "Actually, the Suresh Kumar Committee did not really give us any unambiguous guidance.....There is no clear recommendation which comes out."

43. In a subsequent note, the Ministry of Finance, informed that the Valuation Committee's report was one of the technical inputs for the Government while the Committee had reviewed the Valuation guidelines as per CCI norms and suggested certain variants, the Committee had not specifically recommended any Valuation formula.

44. As regards the action taken on the recommendations made by the Valuation Committee, the Committee have been informed that consultations were held as suggested by that Committee with the representatives of individual PSEs, administrative Ministries, Department of Economic Affairs and DPE to work out the referal price for the shares of each PSE. The Government appointed in September, 1991 M/s. Strategic Consultants Pvt. Ltd. as consultants to advice on the pricing of shares of selected PSEs with a view to get professional advice from an outside consultancy firm.

(B) *Appointment of private consultant*

45. The Government appointed in September, 1991 Strategic Consultants Pvt. Ltd. as consultants to advise on the pricing of shares of selected PSEs. For this the Government had considered the proposals of two consultancy companies i.e. Strategic Consultants Private Limited and Coopers and Lybrand Private Limited. Taking into consideration the time factor and also the terms and conditions of the respective parties, the

services of Strategic Consultants Pvt. Ltd. were availed and a sum of Rs. 4,05,931 was paid to them.

46. Drawing the attention of Shri Suresh Kumar, the then Secretary (DPE) to the fact that a mention of Strategic Consultants Pvt. Ltd. had already been made in the Valuation Committee report, the Committee desired to know whether he knew the consultants long before. In his reply, he deposed:

> "The disinvestment was announced in the press. They came with their risk evaluation of public sector because they had a computer model which they had brought from America. They showed us on the basis of their risk estimation of some of the public sector units and how the situation would look like if any body was to consider buying their shares. I was not in touch with them before. When he presented himself to us, he wrote a letter saying Mr. Krishna Murthi had sent him to us. Mr. Krishna Murthi was at that time a member of the Planning Commission. But that is not material so far as I am concerned because we looked only at this point of view that most of the merchant bankers had no knowledge of public sector shares."

47. On being asked whether Strategic Consultants worked for any other enterprises before approaching DPE, Shri Suresh Kumar acknowledged during evidence that he did not know.

48. Recounting the sequence of events leading to appoint of private consultancy firm, the Secretary, DPE during evidence stated:

> "Suresh Kumar Committee met in the late August and early September and prior to that, these companies had been getting in touch with the Department. There is a mention of these two companies in the report of the Suresh Kumar Committee. It mentioned that companies such as this can be consulted. After that, the report of the Committee was discussed in a meeting with the Finance Secretary where it was decided that some consultants could be engaged for this purpose. That decision having been taken, then, these two people were asked to come and to make their presentations. They made their presentations and then they were asked to make their common offers."

49. In reply to a Specific query of the Committee whether other consultancy firms also approached by the Department, the Secretary (DPE) during evidence stated that there were others also.

50. Enquired whether any criteria was prescribed about qualifications and expertise of private firms for their appointment as consultant for advising on valuation of shares of PSEs, the Secretary (DPE) stated:

> "There is no specific criteria that was laid down about the qualifications of the consultants. But them, these consultant (M/s. Strategic Consultants Pvt. Ltd.) had met the officials in the Department and in

discussions with them it appeared that they seemed to have had the required experience in this kind of work, in the evaluation of shares and also the offer given by them was reasonable..... So these people seem to have been engaged."

51. The Consultants submitted their report in three batches (Vol. I, Vol. II and supplement to Vol. II) on 10th, 12th and 18th December, 1991 and their recommended price ranges of shares of selected PSEs were based on the prevalent state of stock market specific to the industry in which each PSE could be classified.

IV. MODUS-OPERANDI FOR DISINVESTMENT PROCESS

(A) *Government decisions in November, 1991*

52. From the information received by the Committee, it was seen that the *modus-operandi* for disinvestment was discussed at the Cabinet Committee on Economic Affairs (CCEA) on 24.11.1991 on the basis of a note prepared by the Ministry of Finance (Department of Economic Affairs) on 20.11.1991. The Governmental approval for the same envisaged *inter alia*:

(i) The Controller of Capital Issues (CCI) guidelines generally under price the shares and therefore, were not suitable for the scheme of disinvestment of shares of PSEs. The Ministry of Finance accordingly, contemplated that the valuation of shares of PSEs should be done on the basis of Net Asset Value (NAV) method; the Profit Earning Capacity Value (PECV) method; and the Discounted Cash Flow (DCF) method. For determining PECV, it was proposed that while the P/C ratio could normally be in the range of 8 to 12, for PSEs which were operating in sectors where private sector companies also existed, the P/E ratio of such companies might be taken as a norm if it was higher. It was also contemplated that a representative ratio might be used where there were differences across industries in the P/E ratio. The Ministry of Finance also expected that DCF would help in arriving at realistic prices for the shares of the PSEs. Based on the valuations so arrived according to the three methods, the Government approval contemplated that the average of the two higher values so obtained would be taken as fair value or the reserve price for that PSE share.

(ii) As regards the *modus-operandi* of disinvestment, the Government dicision contemplated categorisation of selected PSEs in three ways viz; very good, good and average. There after baskets consisting of different combinations of six to nine PSEs would be made including some from each category of the PSEs. The particular combination in each basket was to be decided by the DPE and any PSE could find place in more than one basket in different proportions;

(iii) The total value of the equity in each basket would be about Rs. 5 crores based on the fair value of the each enterprise. For each basket the

highest bid was to be accepted provided it was above the reference values. In the case of PSEs already listed in the stock exchanges, the Government approval envisaged that disinvestment of Government equity shares would be made directly to mutual funds and investment institutions at the market price.

53. It was further seen that the then Secretary, DPE in a note recorded on 12.12.1991 *inter alia* stated:

> "3. In regard to preparation of bundles, DPE have finalised the bundles based on the list of 31 enterprises and the tentative values of their shares available with us. Each bundle has been kept at a total value of about Rs. 5 crores, as the general impression among all financial institutions mutual funds was that the size of the bundle will be near to Rs. 5 crores. As the general impression among all financial institutions/mutual funds was that the size of the bundle will be near to Rs. 5 crores. Since the total amount to be realised in the 31 PSEs at different levels of disinvestment and at tentative values of their shares was about Rs. 4100 crores, the total number of bundles of Rs. 5 crores, each comes to 825. We have called for bids from the following financial institutions/mutual funds for all the 825 bundles:
>
> (1) Unit Trust of India
>
> (2) General Insurance Corporation
>
> (3) Life Insurance Corporation of India
>
> (4) GIC Mutual Fund
>
> (5) LIC Mutual Fund
>
> (6) State Bank of India Capital Markets
>
> (7) Canbank Mutual Fund
>
> (8) Punjab National Bank Mutual Fund
>
> (9) Indian Bank Mutual Fund
>
> (10) Bank of India Mutual Fund."

54. The Notice inviting bids for the sale of a part of the shares held by the Government of India in 31 Central Public Sector Enterprises was issued by DPE on 10.12.1991 to the 10 Financial Institutions and Mutual Funds referred to above.

55. The list of 31 PSEs alongwith the number of shares to be sold in each case as grouped into 825 bundles of different values was also supplied to prospective buyers. Some of the important terms and conditions mentioned in the Notice inviting bids were as given below:

1. The bids should quote only the bundle number and the bid amount.

(Clause-1)

2. The bidding had to be done for a bundle as a whole and not in part(s). Clause-2

3. The face value of each PSEs shares had been taken at Rs. 10 and action was taken to make them so wherever necessary. (Clause-5)

4. The Government of India reserved the right to reject any bid in full or part thereof without assigning any reasons. (Clause-8)

5. The offer from the highest bidder for a bundle was to be accepted. (Clause-9)

6. In case the bid for a particular bundle was lower than the reference price fixed by the Government, the Government reserved the right to reject the bid(s). (Clause-10)

7. The amount was required to be transferred to the treasury of Government of India within 3 days from the date of acceptance of bids, but not later than 27th December, 1991. (Clause-11)

8. The shares of all the PSEs offered for sale would be listed out on all principal stock exchanges in the country. (Clause-13)

9. The financial institutions/mutual funds would be free to off-load their shareholding in these PSEs through the normal stock exchange transactions. (Clause-14)

10. All the financial institution/mutual funds would have access to the relevant information in regard to performance of these PSEs as available to the Government of India. (Clause-15)

The bids were to reach by 3.00 P.M. on 18.12.1991 and opened at 4.00 P.M. on the same day in the presence of the authorised representatives of the bidders.

(B). *Sale of shares in bundles*

56. On being asked about the basic reasons for offering shares in bundles when each PSE's share was to be valued on the basis of its inherent worth, DPE in a note stated:

> "Bundling of shares enabled a broader based disinvestment in which very good PSUs were disinvested alongwith less good PSUs. Mobilising resources was not the only object of disinvestment. Wider participation in PSU Equity was also an important objective and it was felt that bundling would help achieve this objective in the initial

stages. Possibly, without bundling the shares, 'very good' PSUs might have fetched higher prices than were imputed to them within the bundles. Equally, the prices realised by 'Average' PSUs shares would have been lower if these had been sold individually, or it may have been difficult to disinvest these shares thus preventing broad based participation. Bundling also achieved broader disinvestment in PSUs."

57. In reply to a question whether such bundling method had been earlier attempted in any privatisation/disinvestment exercise elsewhere in the world, DPE stated that "there are no known instances of shares of PSEs being sold in bundles in any other country."

58. In the light of the fact that the Government had no past experience of disinvestment, the Committee desired to know as to what prompted the Government to take up the disinvestment of shares of 31 PSEs in bundles instead of taking only a few of them in the first instance. In their reply, DPE stated that:

"The advantage in bundling the PSEs shares of different companies was a considered question to generate wider public interest in the purchase of PSE shares and raise the required level of revenue for the Government."

59. In reply to Committee's specific query as to who floated this idea of selling PSE's shares in bundles the Finance Secretary during evidence stated:

"I think this was the sense of Government on how best to do it. It does emanate as a result of great deal of discussion that perhaps bundling will be a good idea."

60. On being pointedly asked as to why this particular method of disinvestment in the form of bundles was adopted, the Finance Secretary during evidence elaborated:

".....That was the proposal the Finance Ministry took before the Cabinet. I think, the main reasons were that we wanted to be sure that in the disinvestment, the good enterprises would be disinvested alongwith the ones that are less investor fancy. Of all the enterprises, there was no loss making enterprise. I would like to mention that in the original proposal for disinvestment that had been considered in the Ministry since 1991 or earlier, the original thinking was that a Public Sector Unit should be created, in other words all the shares of the public sector companies which are to be disinvested should be put into a mutual fund, that is, the equivalent of one big bundle and bids of this bundle can be sold as individual units. In this way it was thought that we could do the disinvestment of a wide range of enterprises. This has been therefor at least a year or so before the disinvestment took place. But, I think, the main justification is that

this allowed us to do a little disinvestment of a number of PSUs. Once the shares are disinvested and they started to be traded in the market, then it is quite clear that there is no necessity to do bundling....."

61. In reply to a question whether the Finance Secretary subscribed to the view that the method of bundling adopted by Finance Ministry was not the correct method, the witness stated:

"I would certainly agree that in retrospect, our assessment is that the best way of selling the shares to get the highest possible price is really to sell them individually."

62. In reply to another related question, the Finance Secretary stated:

"That is our present view. We do not yet have a Government decision on the mechanics of sales for public sector for the current financial year but our expectation and our recommendation will be that it should not be bundled."

(C) *Preparation of bundles on the basis of tentative prices*

63. It is seen from audit review that the reserve price of shares of each PSEs were not determined before inviting the bids and consequently the reserve price of bundles could not be indicated in the Notice inviting bids. Replying to a question as to how the value of the bundles was computed at Rs. 5 crores in the absence of reserved price at the time of inviting bids, the Secretary (DPE) stated:

"Having decided that each bundle should be of the value of Rs. 5 crore it was computed on the basis of tentative prices- .....there seems to be no note on the file to suggest that this particular formula should be adopted for ariving at a tentative price..... I cannot really answer as to how exactly this tentative value was arrived at, because there seems to be nothing on the file."

64. During his deposition, the Finance Secretary conceded that there were no explicit guidelines on valuation of shares when the bundles were constituted.

65. In their subsequent note to the Committee about the criteria adopted for fixing tentative value of shares for the purposes of formation of bundles, DPE stated as follows:

"The tentative reserve price used for the preparation of bundles was fixed on estimated basis keeping in view the NAV, PECV and various other factors governing the performance of each PSE known at that time. It was purely on estimated price used for the structurisation of bundles and not intended to be used as a reserve price for sale of shares. Although the DCF values were received from most of the PSEs before 10th December, 1991, these were, however, not used while estimating the tentative reserve price as the same required detailed checking and discussion with the

administrative Ministries/Departments as well as concerned PSE Managements so as to have a clear picture of the future projections which formed the very basis for DCF valuation. For example, in some cases, the PSEs had given DCF values based on different set of assumptions and it was not possible for DPE alone to select any one DCF value out of various alternatives."

66. Elaborating on the aspect of formation of bundles on the basis of tentative value of shares, Shri Suresh Kumar, the then Secretary DPE during evidence stated:

> "In regard to finality, there was a final proposition that you finalise the bundle after you receive the consultant's price. It came between 11th and 17th December.....There could be no finality to this particular pricing of the bundle. To that extent if you say I did not carry out Government order, you are probably, right in saying that I did not carry out in the verbatim way. It was not possible to do so."

67. On being asked about the need for calculating the tentative value of shares, the then Dy. Director (Costs) in DPE stated during evidence:—

> "this method was adopted for the convenience of preparation of bundles."

68. In reply to a query as to who were involved in preparation of bundles, the Secretary (DPE) informed the Committee that:

> "Of course, my predecessor Mr. Suresh Kumar, Mr. Goel who was the Deputy Director in the Department at that time and the computer staff who helped to prepare the bundles."

69. To a specific question of the Committee, the then Dy. Director (Costs) in DPE stated that "the bundles having estimated value were prepared as per the instructions of the then Secretary, DPE."

70. As regards the dates on which decisions about formation of bundles were taken, the Secretary (DPE) deposed:

> "The exact dates are not known but I am told it took about a week to do this exercise since the bundles were issued on the 10th. This would have been done some time in the first or second week of December, 1991."

71. As regards the then Secretary (DPE's) observation in his note dated 12.12.91 that the general impression among all the financial institutions was that the size of the bundle would be near Rs. 5 crores, the Secretary (DPE) during evidence informed that:

> "there is nothing which would seem to suggest that this information was conveyed to the financial institutions and mutual funds. It is quite possible that it may have been discussed with some of them informally at the earlier stages."

(D) *Inclusion of CRL and Andrew Yule Shares in Bundles*

72. Pertinently, the share of Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) Which were already listed in the stock market, were also included in the bundles in contravention of the Government decision to off-load the shares directly to mutual funds/financial institutions at the market price in the case of PSEs already listed on the Stock Exchanges. On being enquired about the reasons for inclusion of the shares of these PSEs in bundles, DPE in a note stated:

> 'Market price is a reliable guide only when there is a long history of active trading in a share for reasonable volumes over a long period of time. The shares of above PSEs were being traded at sporadic intervals in relatively small lots. It was decided that the inclusion of the above PSEs would serve as a sweetener for the bundles and thereby generate active interest in bidding."

73. It has however, been pointed out by Audit that the contention about small lot trading is absolutely incorrect in relation to Cochin Refineries. On the contrary, the large trading volumes and liquidity led to the upgradation of CRL to the specified group of Bombay Stock Exchange on 3rd January, 1992.

74. The Committee's examination of the details of transactions of shares of CRL in Cochin Stock Exchange as furnished by DPE reveals the following position in the three months preceding the disinvestment of shares in December, 1991:

Month	No. of Transactions (Share value Rs.100 each) No. of Shares
September, 1991	792	11,780
October, 1991	576	13,340
November, 1991	536	10,080

75. On being asked as to how was it ensured that the realisation from the sales of shares of these two PSEs in bundles were not below the market price, DPE clarified in a note:

> "The referral price of each bundle was based on the number of shares of the PSEs included in the bundle. No bid was accepted whose value was less than the referral price calculated for the bundle in accordance with the decisions of the CCEA. However, the individual price which the bidder would have had in mind for calculating the value of the bundle is not known to the Government. The buyers would naturally have gone by their perception of share price for the PSEs in the bundle which includes, obviously, his perception of the market price of Cochin Refineries and Andrew Yule at the time of bidding. Comparing the actual realisation with the market price is not realistic. However, taking

into account the large number of shares to be off-loaded at a given point of time, it is also not realistic to expect that the realisation would be at the same level as per the market price."

76. According to the information made available to the Committee, the following position in respect of these two PSEs emerges with regard to the market price of their shares during November and December, 1991 at different Stock Exchanges *vis-a-vis* the final reserve price fixed by the Government in the first disinvestment during December, 1991:

STOCK EXCHANGE	MARKET PRICE	FINAL RESERVE PRICE FIXED BY GOVERNMENT
CRL	Nov., 91 Highest-Lowest	Dec., 91 Highest-Lowest
Cochin	1122—925	1065—900
Bombay	1070—960 (Face value of share Rs.100/-)	1040—960 (face value of share Rs.10 each)
AY		
Calcutta	53—46	51—45

(E) *Fixation of original reserve price and consequential variation in value of bundles*

77. Subsequent to invitation of bids on 10.12.1991 the DPE determined the original reserve prices for the sale of selected PSEs' shares in consultation with the PSEs; their administrative Ministries and the Ministry of Finance between 14th to 18th December, 1991 on the basis of the date, furnished by the PSEs for the three methods of NAV, PECV, DCF as well as the valuation done by the private consultants appointed by the Government.

78. According to Audit, this fixation of reserve price led to appreciable variation in the value of bundles which was not in accordance with the approval of the Government for keeping the value of each bundle around Rs.5 crores. A valuation done by Audit as a test check of bundle nos. 74, 90, 262, 277, 364, 385, 404, 460, 550, 610, 674, 756, 788, 807 and 821 on the basis of reserve prices of shares of selected PSEs revealed that the value of these bundles ranged between Rs.8.61 crores to Rs.12.91 crores.

79. On the basis of the details of bundles made available to them, the Committee have come across instances of several bundles where the

variation in the value of the bundles was even more higher. Some of such cases are indicated below:

Bundle No.(s)	Value as per original reserve price (in Rs.)
787	14.02
782—86	13.33
766	13.15
781	13.09
767—80	13.07
822—24	13.07

80. According to the DPE, the ranges of bundles based on the reserve price were as under:—

Bundles upto the value of Rs. 5 crores—Nil

Bundles between Rs. 6 crores & Rs. 8 crores—5

Bundles between Rs. 8 crores & Rs. 10 crores—691

Bundles above Rs. 10 crores—129

(F) *Receipt of non-competitive and low bids*

81. In response to the notice inviting bids for the sale of 825 bundles of shares from 10 institutions, 710 bids were received from 9 institutions for 533 bundles as per details given below:

		No. of bundles	No. of bids	Percentage of total bundles
(i)	No. of bundles for which one bid was received	387	387	72.61
(ii)	No. of bundles for which two bids were received	122	244	22.89
(iii)	No. of bundles for which three bids were received	19	57	3.56
(iv)	No. of bundles for which four bids were received	3	12	0.56
(v)	No. of bundles for which five bids were received	2	10	0.38
		533	710	

It would be seen from the above table that 72.61 per cent of the bundles had only one bidder, 22.89 per cent of the bundles had only two bidders and it was only in 4.50 per cent cases that 3 or more bids were received. According to audit, this clearly showed non-competitiveness of the bids received.

82. The audit review has also highlighted that a couple of institutions had virtually dictated the prices since one of the institutions had submitted 389 bids valuing Rs. 1267.42 crores which accounted for 55 per cent of the total bids received, another financial institution offered 152 bids valuing Rs. 449.34 crores which represented 21 per cent of the total bids received and the remaining 7 institutions/mutual funds together contributed only 24 per cent of the total bids valuing at Rs. 584.08 crores.

83. On being asked whether any comperative statement was prepared indicating the amount of bids received *vis-a-vis* the original reserve price worked out for each PSE shares, the DPE in their note stated:

> "The bundles were evaluated on the basis of referral prices fixed earlier, it was found that the lowest value of 824 bundles was Rs. 6.99 crores while the highest value of bids received for such bundles was Rs. 4.29 crores. In respect of 825th bundle (which was a part bundle), the value of the bundle as per referral price was Rs. 3.09 crores while the value of highest bid received was Rs. 1.80 crores. In view of the apparent difference between the value of bundles as per referral prices and bids received, no bundle-wise comparison was made since no meaningful conclusions could be drawn therefrom."

84. In reply to a question as to why the Government did not resort to negotiations with the bidders, the Finance Secretary during evidence stated that there should be no feeling in the public that Government has negotiated by calling the bidders and saying that their bidding was low and the value of the shares offered for sale was high.

85. On being enquired whether the Government did not feel the necessity of calling fresh bids by widening the scope, the Finance Secretary during evidence admitted:

> "To be honest, we did not consider the possibility of scrapping this bid and going in for an overall fresh bid, a wider one."

86. On being further asked about the compulsions for not doing so, the Finance Secretary deposed:

> "It is true that there was an urgency to bring about a reduction in the fiscal deficit and I think it is a very real urgency."

87. The Committee enquired as to why the Government limited the number of bidders during this first phase of disinvestment. In response, the Finance Secretary clarified:

> "The main answer is that a decision was taken in the first phase to limit the bidding to the public sector mutual funds and UTI. The reason for that was that first of all the bulk of investible resources are with these organisations."

88. Agreeing that there was lack of competition in the bidding during the first round of disinvestment, the Finance Secretary stated:

> "These institutions remained totally dominated. It should have been widened."

89. Maintaining that the lack of competition in the first phase of disinvestment was beneficial, the Finance Secretary during evidence further stated:

> "As far as the public money is concerned, the benefit has gone to the financial institutions and a little bit less to the Exchequer. This was pointed out to the Cabinet. In the Cabinet Note, we have draw the attention of the Cabinet to the fact that we are not very sure how we are valuing the shares and it is possible that it may be questioned. The point is any benefit of under-valuation would go to the public."

90. From the information made available to the Committee, it was seen that the question of bids being lower than expected was discussed in the Ministry of Finance on 19 December, 1991. In this context, relevant extracts from the note recorded by Joint Secretary (Investment), Ministry of Finance on 20.12.1991 is reproduced below:

> "Since the bid were far below than expected, the position was reviewed in the meeting taken by Cabinet Secretary on 19.12.1991 in which the Principal Secretary to PM, Finance Secretary, Secretary (EA) and Secretary, DPE also participated. Various alternatives were discussed, and it was decided that the Department of Economic Affairs, in consultation with the DPE, would take a proposal to the CCEA for his direction particularly in regard to the price as the bids received were much below the reference prices. The minutes of the CCEA meeting also required the final proposal to be resubmitted to CCEA.
>
> Finance Secretary, Secretary (EA), Secretary DPE and JS (Inv.) discussed this with P.M. on 19.12.91. It was suggested by JS (Inv.) that since for about 300 or so bundles only one bid had come in and none for another 300, these bids should be rejected, as they were only, single offers and as better bids could come in if the bundles were reoffered. This would be the most appropriate step. Another suggestion could be to reject all the bids, rebasket the bundles and reoffer them to all. An alternative proposal was made by me that the PSEs shares should be sold individually to get the best offers instead of bundling them. All these proposals were considered in detail as also various other alternatives, but it was ultimately agreed that, considering the time constraint and the urgency of raising funds before the end of December 31, 1991 coupled with the fact that any attempt to influence the bids by

negotiations or restructuring the bundles would be misconstrued as applying pressure on the mutual funds and financial institutions, we should accept the bids received. It was decided that a proposal should be taken to the CCEA...."

G. Offer of shares for sale in excess of the perceived investible resources with the institutions

91. The audit review has revealed that on the basis of original reserve prices of shares determined by Government, the average value of each bundle as worked out in Audit was about Rs. 9.75 crores and the total value of 825 bundles was, therefore, around Rs. 8000 crores. The Audit para also referred to a note dated 18.12.1991 submitted by DPE before opening of the bids on that day that they had anticipated that the institutions from whom bids were invited would be able to purchase shares of the value of around Rs. 2000–2500 crores as against the DPE's intimated value of shares of over Rs. 6,000 crores. In this background, the Audit has pointed out that the shares were offered in excess of the purchasing capacity of the financial institutions etc., and it was confirmed on opening of bids as only 710 bids for 533 bundles for a total value of Rs. 2300.84 crores were received and the value of each bundle quoted was far below Rs. 5 crores.

92. The Committee, therefore, desired to know the logic of offering shares of much higher value for sale in 825 bundles in December, 1991. In response, DPE in a note stated:

> "Irrespective of seller's desire or assessment about the value of his shares, the buyer as per his perception makes bids. Government has sold shares according to reserve value duly approved. Therefore, seller's presumptions of value of shares offered and about availability of funds with buyers are only very broad guesstimates."

93. During evidence, the Committee desired to know whether the financial capacity of the institutions was assessed before calling bids from them in his reply, the Finance Secretary stated that they did not proceed in the manner where they first calculated the capacity and then accordingly, offered the shares.

94. On an enquiry from the Committee as to how the Ministry of Finance has concurred with the note of the DPE wherein it was observed that the financial institution intended to buy shares worth Rs. 2000—2500 crores and the value of shares offered for sale to them was more than Rs. 6000 crores, the Finance Secretary stated:

> "But we had not Cabinet approval to sell shares more than Rs. 2500 crores. It is not fair for me to share what was in Shri Suresh Kumar's mind. The sum of Rs. 2500 crores is what we were going to mobilise. By offering a large number of shares, you are only giving the institutions more flexibility."

95. In reply to a related question, the Finance Secretary admitted that "as far as we are concerned, the financial institutions knew that we are going to raise Rs. 2500 crores."

96. On being asked categorically whether there could be underbidding of the bundles valued at 2–3 times more than the investible resources available with the financial institutions, the Finance Secretary stated:

> "But we did not take a view that if we were to raise X thousand crores, than you should offer only X thousand crores."

97. Replying to a related question, the Finance Secretary added:

> "The people know that we were going to mobilise so much. I would not say that by itself would have led to underbidding."

98. On being further questioned whether there would be a possibility of underbidding due to paucity of funds with the FIs/MFs, the Finance Secretary admitted:

> "First of all, we did not at that time feel that this was the consideration that would lead to a logical conclusion."

99. During the deposition of Shri Suresh Kumar, the then Secretary (DPE), the Committee enquired as to how he arrived at the conclusion that the investible funds available with the FIs/MFs were to the tune of only Rs. 2000 crores to 2500 crores. In his reply, the witness clarified:

> "The number of parties being limited and this fact was known that UTI had gone to the market and raised some funds which were being talked about i.e., Rs. 2000 crores. Roughly, we also had a mental block of Rs. 2500 crores, we thought that they would probably be ready with that kind of money. We will not sell anything for any price."

100. On being asked as to why did he not consider widening of bid as the FIs/MFs were intending to buy shares worth only upto Rs. 2000-2500 crores, the witness replied that it could not be done. He further added:

> "At some stage on 12.12.1991, I actually listed out 10 FIs on which the approval was taken. If there would have been any doubt, the Finance Ministry would have asked. They did not ask."

(H) Reduction in the original reserve prices of the shares made after the opening of tenders

101. As brought out earlier in this Report, the original reserve prices for the sale of PSEs shares were determined between 14th to 18th December, 1991. According to audit review, it was found by the DPE on opening the tenders on 18.12.1991 that no tender could be accepted if the bid for each bundle of shares was valued with reference to reserve prices fixed. The DCF method was, therefore, given up by the Government and the shares of PSEs were evaluated only with reference to the CCI formula, i.e.,

average of NAV plus the PECV being calculated at a uniform capitalisation rate of 10 per cent which implied prices being determined at 10 times the Earning Per Share. This revised criteria of valuation of shares resulted in reduction of the reserve prices ranging from 21.95 per cent to 86.67 per cent and the reduction in valuation was above 50 per cent in 24 of the 31 cases as detailed in Annexure-II of the C&AG's Report (Appendix-II).

102. The Committee desired to know the justification for substantial reduction in reserve prices earlier fixed on the basis of Government decision and in consultation with the concerned PSEs, their administrative Ministries and the Finance Ministry. In their reply, DPE in a note stated:

> "The reserve prices worked out earlier were mostly based on the average of PECV and DCF value with the latter being the highest in most of the cases. The DCF value computed by the PSUs based on expected returns and cash flows were at much higher level than what was perceived to be feasible, as revealed by the bids received. Further the PECV was also on the higher side since it was based on average industry sector PE ratio which included private sector firms with high price equity. There were also significant uncertainties about future performance of these public enterprises and there was also a degree of illiquidity of the disinvested shares. It was also felt that a certain degree of conservatism in valuation would be required to build confidence amongst the investors, since it was the first such sale and subsequent tranches were also expected."

103. Reacting to the above reply of DPE, the Audit observed as follows:

> "The assertion of the Department that the reserve prices worked out earlier were mostly based on the average of PECV and DCF value and that the latter were the highest in most of the cases is not based on a factual analysis. In fact in the case of 10 out of the 31 PSEs for which valuation had been done, the DCF value was not the highest amongst the three values. A detailed statement is enclosed (Annexure-I). This list includes 7 out of the 8 'Very Good' companies. Further more in 7 cases the DCF value did not form the basis of the reserve price (Annexure-II). The Department's contentions are, therefore; not based on facts. It is not clear as to how the Govt. decided to give the go by to the projections made by the PSEs which were to be the ones to be included in the Eighth Plan in favour of the perceptions of the MFs/FIs which were looking for investments to make capital gains.
>
> In order to evaluate whether the projections made by the PSEs for determining the DCF valuation were indeed optimistic as supposedly perceived by the MFs/FIs, a perception whose veracity was accepted by the Government. Audit has scrutinised the 1991-

92 & 1992-93 audited accounts of 9 PSEs (Selected at random) out of the 22 in whose case the DCF value has been used for determining the reserve price. It is noticed that in 4 out of the 9 cases, the actual performance is higher than the projections of Gross Cash Flow made for DCF valuation. Out of the remaining 5 in 4 cases the actual performance was higher in 1991-92 but lower during 1992-93. Only in one case was the actual performance level lower in both the years. Considering that 1992-93 was one of the worst years of industrial recession, it would emerge that the projections made by the PSEs were not at all optimistic. A detailed statement is in Annexure III.

The use of Industry Capitalisation Rate for arriving at the PECV had been adopted by the Govt. as per the guidelines initially issued. This had also formed the basis of the advice of the professional consultancy firm engaged. The shortcoming apparently came to notice only when the bids fell well short of the reserve prices. The other arguments put forward by the Deptt. are equally specious.

(Annexures— I, II & III are reproduced at Appendix III to this Report.)

104. As regards the justification for adopting the uniform capitalisation rate of 10 per cent for valuation of shares under PECV method irrespective of the industry group to which the PSE belonged, DPE in a note stated:

"The bundles consisted of PSEs in different groups of industries. It is not possible to adopt any particular Industry Capitalisation Rate, especially as comparisons with private industry and a particular PSE will not lead to proper conclusions, given the differences between PSEs and private sector units on matters concerning dividend policies, debt equity gearing exposure to investors etc. Since this was the first exercise of its kind and the shares were not listed and keeping in mind the range of 8-12 P/E ratio adopted by CCI, an average of 10 per cent was applied."

105. In this context, it is relevant to point out here that at the time of initial fixation of reserve prices, the industry capitalisation rate was adopted as a method of calculation while considering the different options. The Chief Advisor (Cost), Ministry of Finance had earlier suggested that capitalisation rates for the best among the PSEs should not be less than those of the best private sector company.

106. During the course of examination, the Committee have been informed that the Ministry of Finance prepared a note dated 24.12.1991 for final approval of the Government for 'Disinvestment of Government holdings in selected Public Sector Enterprises during 1991-92.' In view of the reserve prices fixed in accordance with earlier decisions of Government

being higher than the bids received for all the bundles, the Note of 24.12.1991, *inter alia* envisaged Government approval for accepting the bids for bundles which were in line with CCI valuation procedure and also proposed that Government should reject all bids for all bundles where the bid price is lower than the CCI valuation. Pertinently, the MOF *vide* their Note for CCEA datd 20.11.1991, had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs as" these guidelines generally underprice the shares."

107. Even the Valuation Committee headed by Shri Suresh Kumar had observed in its report that "the disinvestment of Government share holdings in PSEs is a sale by a shareholder to a buyer. Therefore, the guidelines issued by the Controller of Capital Issues (CCI), Deptt. of Economic Affairs for valuation of equity shares of public companies are not applicable."

108. During evidence, the Finance Secretary informed the Committee that "the basis of calculating that reserve price (original) which was analysed subsequently by the DPE was itself leading to an unrealistically high valuation. It included cash flow calculation which is a subjective calculation which was based on the estimates given by the public sector undertakings' managers. Our view was that we can put it to the Cabinet that this is unrealistically high."

109. On being pointed out that initial valuation procedure was endorsed by the CCEA on the advice of Ministry of Finance, the Finance Secretary admitted:

"I accept it."

110. In reply to a question as to why Finance Ministry concurred with the initial proposal for valuation of shares, the Finance Secretary stated:

"It is true that our perception changed."

111. Narrating the sequence of events after fixation of reserve prices of shares on the basis of earlier decision of Government, the Finance Secretary deposed:

> "Then we saw the bidding prices. We had an extensive internal discussion. Depending on the method you use, prices came out very different. We did not really know what would be the objective that we have on deciding the reserve price. What we had in our mind at that time was that CCI guidelines were the statutory guidelines. If the public sector enterprises at that time had tried to issue fresh equity in the market, they would be forced to issue it at the CCI prices. That was the law at that time. We took this to the Cabinet explicitly and we said that if you accept that old formula, nothing can be solid. So, Cabinet was aware that that is one choice."

112. On being pointedly enquired whether the CCI guidelines do not generally underprice the shares, the Finance Secretary stated:

> "I think that the fact that the presumption that the CCI formula generally underprices the shares of private sector organisations, I would say, is true. Once you accept the general one, there may be a few exceptions here and there but generally it is true. A wide spread complaint of the private sector is that the shares are underpriced."

He also stated:

> "We informed the Cabinet that using the CCI formula is more conservative. But there are serious deficiencies in public sector shares, which the private sector companies do not have. These shares had never been traded. These shares are 51 per cent Government owned. That is a problem....We were aware that this method was conservative. But we felt that this was an appropriate thing to do."

113. The Committee pointedly enquired whether the Finance Ministry had apprised the Cabinet about the extent of reduction in original reserve prices as a result of change over to a new formula and adoption of a uniform capitalisation rate of 10 per cent. In his reply, the Finance Secretary admitted:

> "We did not know the extent. After the analysis, our assessment was that the price itself is not a reasonable price so, the notion of reduction is a technical point. The Cabinet was not informed as to what is the particular price that comes out of a particular formula. Even in the earlier Cabinet Note, only the formula was discussed and mentioned."

114. In the light of the fact that the private consultants' recommended value for shares almost matched the original reserve price fixed earlier, the Committee desired to know the reasons for ignoring even the Consultant's advice. The Finance Secretary deposed:

> "The Finance Ministry did not appoint the Consultant. It did not receive any advice from the Consultant. The Department of Public Enterprises did not say that the Finance Ministry must follow his advice. When we changed the formula, it was made with the full a approval of concerned Department. At that time, if the Department of Public Enterprises had taken the view of the consultant and they supported him, then we would have listened to them."

115. On being asked whether the Finance Ministry had any other input to say that the earlier formula was unreasonable excepting that the bids were low, the Finance Secretary stated:

> "Yes Sir, the detailed study was done by the Department of Public Enterprises. We should ask the Department of Public Enterprises as to why they came to the conclusion. The fundamental reason, I think, was that the discounted cash flow, which was a very important element, was really based on PSUs own perceptions. I think that the Department of Public Enterprises found that it was not objectively defensible."

He added:

> "We discovered later on that MOUs were based on unrealistic assumptions about how much resources will be made available. The basic advice that the earlier formula was unreasonable came from the Department of Public Enterprises on their own analysis."

Elaborating further, the witness stated:

> "The total assessment that we got from the Department of Public Enterprises was that there is an unrealism in the assumption on which the discounted cash flow was maintained."

116. Reacting to the Committee's observations that the financial implications involved as a result of change of formula were substantial and could be a vital information to be brought before the Cabinet, the Finance Secretary stated:

> "I would not like to say so. Cabinet does not decide individual prices."

117. Replying to a question as to how the Finance Ministry concluded that the Government would not be able to sell the PSEs shares if the prices were not reduced, the Finance Secretary stated:

> "This is one of those areas of judgement. The main thing is that we wanted the first round of disinvestment to succeed in the sense that we do not simply end up disinvesting in very good enterprises only, but also so disinvestment in good and average companies."

I. Extent of variation in the value of bundles

118. At the instance of the Committee, DPE furnished computer print outs of the detailed valuation of 825 bundles. These computer print outs revealed that different valuations of the 825 bundles were worked out on the basis of (i) tentative value at the time of formation of bundles, (ii) the High and Low prices of shares as recommended by the private consultant, (iii) average of NAV and PECV at industry capitalisation rate, (iv) reserve prices fixed by DPE between 14th to 18th December, and (v) reserve prices re-fixed by Government on the basis of average of NAV and PECV at uniform capitalisation rate of 10%.

119. The Audit review had indicated the extent of variations in respect

of the original reserved prices fixed for the bundles Nos. 74, 90, 262, 277, 364, 385, 404, 460, 550, 580, 610, 674, 756, 788, 807, and 821 with reference to the bid prices accepted by the Government. A Table indicating the price differentials in terms of the five different methods of pricing referred to above as revealed on a further scrutiny by the Committee is given below:

Value (Rs. in lakhs)

Bundle No	Value of Bundles prepared on Tentative Value	Strategic Value High	Consultants Low	Ave. of NAV-I & PECV at industry capitalisation rate	Reserve price fixed between 14-18 Dec., 1991	Reserve price refixed as an avg. of NAV & PECV at 10% cap. rate	Bid price accepted by Government
74	500.21	1134.51	738.29	396.48	868.40	305.13	317.00
90	499.82	1194.71	797.86	391.62	894.36	303.22	303.76
262	499.82	155.83	762.07	382.20	860.39	294.67	330.00
277	490.82	155.83	762.07	382.20	860.39	294.67	330.00
364	499.82	1212.43	856.38	383.25	898.12	299.92	306.81
365	499.82	1212.43	856.38	383.25	898.12	299.92	306.81
404	499.82	1212.43	856.38	383.25	898.12	299.92	306.81
460	499.81	1261.41	897.85	367.86	909.55	297.76	317.14
550	499.82	1041.44	837.98	358.47	939.41	301.49	367.00
580	499.82	1041.44	837.98	358.47	939.41	301.49	351.00
610	499.78	1023.92	818.45	370.50	976.21	309.51	477.00
674	499.85	1061.12	859.44	403.16	978.85	351.00	355.00
756	499.84	1039.18	867.82	408.83	963.49	344.04	497.00
788	499.90	1479.96	1103.43	389.86	1286.03	328.65	338.05
807	499.87	1269.31	983.94	363.66	1110.49	302.45	308.71
821	499.88	1652.09	1343.67	391.29	1291.04	326.27	327.77
	7997.70	19148.04	14189.99	6114.35	15572.38	4940.11	5539.86

120. It will be seen from the above Table that as against the original reserve price of Rs. 155.72 crores fixed (between 14—18 December, 1991), the bids were accepted for the 16 bundles for Rs. 55.40 crores only. The lowest prices recommended by Strategic Consultants for these bundles were Rs. 141.90 crores. The prices fixed on the basis of average of NAV and PECV at specific industry capitalisation rates were Rs. 61.14 crores as against the revised reserve prices of Rs. 49.40 crores refixed for the same on the basis of NAV and PECV at a uniform capitalisation rate of 10%. The table also reveals that in case of these 16 bundles above, the extent of variation between the bid prices accepted and in prices of shares in the original reserve price fixed amounted to more than Rs. 100.33 crores. It will also be seen that the reserve prices refixed were the lowest amongst all the various methods of valuation adopted in the entire exercise and was also lower than the bids accepted.

121. The Committee drew attention of the then Secretary, DPE to the above. The witness stated:

> "What had happened was that we received the bid and we showed it to the Finance Ministry. You are right in saying that there was pressure. I think it was very clear that the Finance Ministry said that we cannot take an arbitrary decision in this and there must be some base. It was pointed out about the strategy of bulk selling. In fact, Cabinet discussed all these things for 2-3 days. I must tell that initially I rejected everything. But then the Finance Ministry had a look at it. They said that anything that would level with the market may be accepted. I enquired as to what it was that matches CCI formula....."

122. On an enquiry from the Committee whether the PSEs and their administrative ministries were consulted before lowering reserve prices, DPE in a note stated that "since the administrative Ministries/PSEs were consulted earlier and their views were known, there was no need to consult them again."

(J) *Acceptance of bids for the first tranche of disinvestment in December 1991.*

123. Out of 825 bundles offered for sale, 710 bids were received from 9 mutual/financial institutions for 533 bundles. After evaluating the bid with reference to revised reserve prices fixed for PSEs shares, bids could be accepted only for 406 bundles out of which 289 bundles were single bids representing 71 per cent of the total bundles sold.

124. The bids for 406 bundles for a total value of Rs. 1427 crores were accepted. The acceptances of bids were sent by the DPE to the mutual funds/financial institutions on 1st January, 1992. However, the bid amounts had been credited earlier to the Government account on 23rd and 24th December, 1991.

125. On being enquired whether crediting of the amount to Government account without acceptance of the bids did not reveal an extreme hurry on the part of the Ministry of Finance and DPE, the Finance Secretary stated:

> "If the shares (bids) were not accepted, then we would have to refund the money. We had an annual target for reducing the deficit. But within the annual target, we also had a target that had to be achieved by the end of December.....This decision was made to say that whatever money had been given in, let it be credited, if necessary, we will refund it. If we had been forced to refund it, certainly it would have helped us to meet the December target. But since we were expecting some decision, there was no harm in crediting the amount rather than keeping it outside."

126. In his 'Note on Disinvestment during 1991-92' dated 20.3.1992, (copy of which was furnished to the Committee) Shri Suresh Kumar, the then Secretary (DPE) had, *inter alia,* observed that the "total number of shares sold during the first phase are 51.62 crores which is only 4.7 per cent of the total Government shareholding in 31 PSEs. The average realisation per Rs. 10/- face value share is Rs. 27.65".

127. In the same note, he, however, acknowledge that:

> "The average realisations in the first round were affected by the fact that there was a considerable disparity between the bidders in terms of the resources at their command. As a result, several portfolios had only one bidder, and the commercial advantage of a competitive bidding situation was not fully exploited."

(K) *Second tranche of disinvestment*

128. The second tranche of disinvestment of PSEs shares during the year 1991-92 was undertaken in February, 1992.

129. For this tranche of disinvestment, the DPE on 16-1-1992 held discussions with the Delhi Regional Office of Industrial Credit and Investment Corporation of India (ICICI) requesting them to advise issue price for equity of selected PSEs. The ICICI gave its recommendations on 29th January, 1992 which, *inter alia,* suggested non-inclusion of certain PSEs whose shares had been disinvested in the first phase. As a result, a revised list of 16 PSEs out of the selected 31 PSEs for disinvestment was prepared by the DPE with the approval of Government. The valuation of shares of these 16 PSEs was done with reference to valuation done by the ICICI which was higher or equal to the revised reserve prices fixed during the first phase. However, the recommended issue prices of the selected PSEs were arrived at by the ICICI *inter-alia:*

(i) without scrutinising in detail the profitability projections given by the Companies;

(ii) without scrutinising and not taking into account major changes in the future plan: and

(iii) Keeping in mind that the companies would not undergo any major restructuring.

130. The PSEs and their administrative Ministries were not associated with the second tranche of disinvestment on the ground that "ICICI is one of the major institutions to give expert advice on share valuation" and "it was considered that their expertise could be relied upon".

131. Subsequently, the shares of the 16 PSEs were grouped in fresh 120 bundles and their reserve price were uniformly fixed at Rs. 10.00 crores per bundle which was also indicated in the notice inviting bids. Out of the 36 financial investment institutions/mutual funds/merchant banks from which bids were invited, 273 bids were received from 19 institutions for all the 120 bundles.

132. On being enquired about the reasons for keeping the value of each bundle in the second tranche at Rs. 10.08 crores which was substantially higher than Rs. 5 crores as approved initially by the Government, DPE in a note stated that "Cabinet never approved Rs. 5 corers."

133. In reply to another question whether keeping the value of each bundle at Rs. 10.08 crores would have not restricted the bidding capability to only a few MFs/FIs, the DPE stated:

> "For MFs/FIs and Banks, this cannot be taken as restrictive factor. In the second tranche, Rs. 1611 crores were realised which compares favourably, with the first tranche in which Rs. 1427 crores were realised. In fact, in the second tranche, the number of bidders to whom the shares were offerred has increased from 10 to 36."

134. It is, however, seen from audit review that out of 36 institutions from which bids were invited during the second phase, only 19 institutions has responded. Audit review has also highlighted that out of 273 bids received, 120 bids were received from a single financial institutions and the other three bidders contributed 66 bids. Thus these four bidders contributed 68 per cent of the total bids during the second tranche of disinvestment.

135. Bids for all the 120 bundles in the second phase were accepted for a total value of Rs. 1611 crores and the total number of shares sold during this phase were 35.59 crores. The average realisation per Rs. 10/- face value is stated to be Rs. 45.25 as against the average realisation of Rs. 27.65 during the first phase.

(L) **Analysis of select cases**

136. Audit conducted a detailed analysis of two PSEs i.e., Steel Authority of India Ltd. (SAIL) and Indian Petro Chemicals Ltd. (IPCL) to determine the factors responsible for low value realisations from the disinvestment of shares during 1991-92 and the same is dealt with in the following paragraphs:

(a) *SAIL*

137. SAIL was selected as one of the PSEs for disinvestment of Government's equity holding during 1991-92. At the time of finalisation of the PSEs whose shares were to be disinvestment of shares of SAIL may not be appropriate due to the following reasons:

(i) "20% of the toal equity Rs. 4000 crores (approximately) at the face value would amount to Rs 800 crores. While it is appreciated that mutual funds/investment institutions should not be made to pay exorbitantly high price. President should also get appropriate price. The response to offer of SAIL's shares and market perceptions are likely to improve after 2-3 years when decontrol of iron and steel prices and the ongoing modernisation of the steel plant projects are completed; SAIL is also expected to declare dividends for 1/2 years in the meanwhile.

(ii) None of the 3 methods suggested for valuation of the shares would reflect the real value of SAIL's shares and therefore President would stand to lose and the accruals would be less than fair.

(iii) SAIL has already drawn up plans to disinvest the equity at a time when the accruals are reasonable i.e., in the year 1994-95. These accruals have been estimated as part of the resource of SAIL accounted for as a source for funding the modernisation plans, in papers circulated to Planning Commission, Ministry of Finance and during discussions with them. In case the equity is off-loaded in the manner proposed in the Paper, then the flow of funds may be permitted to be rechanged to SAIL through budgetary route to finance its modernisation programmes. This would be necessary as SAIL, for sometimes past now, has not been availing itself of normal budgetary support."

138. According to the DPE, the views of the Steel Ministry was brought to the notice of CCEA which decided to disinvest only 5% shares of SAIL, as against a proposal of 20% disinvestment. During evidence, the Finance Secretary also stated that "the Minutes of the Cabinet meeting explicitly say that disinvestment in respect of SAIL may be limited to 5 per cent. So, the concern of SAIL was reflected. The Cabinet, in a conscious decision, has decided to limit it to 5 per cent."

139. Although the total disinvestment of the shares of SAIL was only 5 per cent, it actually represented around 23 per cent of the total number of

shares of all the 30 PSEs disinvested during 1991-92. (The shares of one selected PSE, viz., Metals Scrap Trading Corporation remained unsold). This was due to the higher paid up capital of the company at Rs. 3985.89 crores.

140. In the light of the fact that Ministry of Steel had protested against inclusion of SAIL for disinvestment on the ground that response to offer of SAIL's share and market perceptions were likely to improve after decontrol of iron and steel prices and decontrol of steel prices had already been announced on 16.1.1992, the Committee desired to know why a revision of the value of shares of SAIL was not undertaken before inviting tenders for second tranche in February, 1992 when the impact of rise in the market price of shares of steel industries was noticeable especially TISCO whose share price had jumped by almost Rs. 50 immediately after decontrol. In their reply, the DPE stated:

> "The impact of any change in Government control can be perceived only when considerable trading of the shares taken place in the market. However, ICICI had informed the DPE that they had taken into account the impact of decontrol while recommending the price."

141. However, from the documents made available by DPE to the Committees it was seen that the ICICI had categorically stated that the reassessment of issue price for SAIL was possible "after scrutiny of the impact of steel decontrol especially as the decontrol is likely to facilitate a higher issue price."

142. According to the information made available, the price of Rs. 10—12 for a share of SAIL as recommeded by ICICI was almost the same as adopted in the first tranche when steel decontrol had not been announced and the Government was also aware in the middle of January, 1992 that in majority of the cases the value of shares of SAIL purchased by FIs/MFs during the first phase of disinvestment were assessed by them at the face value of Rs. 10/- per share. The Committee accordingly, enquired as to why the Government decided to include the sale of shares of SAIL in second tranche when clear indications were available that further disinvestment of SAIL shares was inadvisable. In their reply, the DPE in a note stated:

> "As long as the shares in the bundles have been valued as per guidelines duly approved and the bundles sold equal to or above the referral price, the bid prices cannot be construed to prove that any share is undervalued. The perception of the buyers may vary. This differing perception of buyers for individual PSE shares cannot be taken to conclude any under realisation or loss. This is especially so since listing has not taken place and market value of the shares is not available. In view of this, it was appropriate to have included SAIL in the 2nd tranches."

(b) *IPCL*

143. The IPCL requested the DPE in August, 1991 that instead of the Government diluting its equity holdings by selling the shares to mutual funds and institutions etc. it might be permitted to issue fresh equity shares to the public to the extent that Government holding in the equity capital of the company could be diluted to 50 per cent over a period and that the company had the experience of raising the funds from public and they had been advised by experts that their shares market value would be significantly higher than its book value. Despite these observations, the Government disinvested 20 per cent of equity in IPCL in the two phases of disinvestments carried out during 1991-92.

144. On being asked whether the IPCL should not have been excluded from the disinvestment exercise as advised by the company, the DPE in a note stated that "if we did not have the IPCL included in the bundles, it might have diminished the attractiveness of the sale."

145. For the sale of shares of IPCL in the first phase in December, 1991 the Government fixed a reserve price of Rs. 175/- per share which was reduced to Rs. 37/- when the price were refixed after opening of tenders. During the second phase of disinvestment the reserve price was however, fixed at Rs. 60/- per share on the basis of valuation done by ICICI. A study of the considertion paid by various institutions undertake by Audit indicated that the price per share of IPCL ranged from Rs. 35 to Rs. 140.60 and in second phase the price paid by certain parties was less than the reserve price of Rs. 60/-.

146. Subsequently, the IPCL went for a public issue in November, 1992 and raised Rs. 320 croes from the public by sale of fresh equity share of Rs. 10/- each for cash at a premium of Rs. 150/- per share. This issue was fully subscribed and closed on the earliest closing date. According to audit observations, this public issue was preceded by prolonged publicity about the strength of the company as well as its future plans.

147. Enquired whether the subsequent public issue made by IPCL had not clearly brought out that price realisation could be much higher if adequate public exposure was made, the DPE replied that "IPCL made a public issue after incurring considerable publicity and other expenses and it is not correct to compare it with the first time sale of share by Government."

148. The Committee desired to know why adequate publicity was not given to the disinvestments undertaken in 1991-92. The DPE in a note furnished to the Committee stated:

> "Government decided as a first step to sell equity to financial institutions and mutual funds who would in turn of load to general public. Since it was not a public issue, it was considered not desirable to incur huge publicity expenditure. At the same time,

prospective buyers like mutual funds/financial institutions were given all relevant information like annual Accounts, balance sheet etc. of the PSEs." Further, "the enterprises were also advised to furnish such information/data to these mutual funds/financial institutions that might be required by them for valuation of shares. There was extensive discusssion with concerned and the mutual funds had ample time to study the situtation. Government had also asked the mutual funds and financial institutions to make their own valuation of shares of public sector undertakings."

V. UNDER REALISATION OF RECEIPTS FROM DISINVESTMENT

149. According to audit review, the unjustified reduction in the reserve prices in response to lower bids received in two branches of sale resulted in under-realisation of receipts aggregating Rs. 3441.71 crores to Government.

150. Asked whether the Finance Secretary agreed with the conclusions of the C&AG's Report that the reduction in original reserve price resulted in under-realisation of share value, the witness replied:

> "We did not accept their conclusion that there was a loss of Rs. 3000 crores. Facts would not justify reaching that conclusion. That is a notional calculation based on a hypothetical assumption which in my view is not based in terms of market relevance. However it is certainly true that we can always improve on what we are doing."

He also added:

> "We have the highest regard for the C&AG's reports.....All we are saying is that the report really says the following: If the reserved price that was fixed on the basis of the formula that the proposed on the 24th November was the value, than compared to that, what has been realised in the market is Rs. 3200 crores less. Our submission is that we are not questioning it. If we could have reached that price, then we would have got Rs. 3200 crores more. But remember that our view on this is that we believe in two things. First of all, we believe that the basis of calculating that reserve price which was analysed subsequently by the DPE was itself leading to an unrealistically high valuation. It included cash flow calculations which is a subjective calculation which was based on the estimates given by the public sector undertakings' managers. Our view was that we can put it to the Cabinent that this is unrealistically high."

VI. FAILURE OF INCORPORATE CLAW-BACK PROVISION

151. The audit review has indicated that a scrutiny of the market prices as prevalent at the end of October, 1992 of 10 PSEs shares since listed (as per details given in Annexure-III to C&AG's Report, revealed that the potential gain to the financial institutions/mutual funds/banks ranged between 126.62 percent to 615.53 per cent over the average price at which these shares were sold in the two phases of disinvestment during 1991-92. According to audit, in fact in 6 cases out of the 10 PSEs listed in the stock exchanges, the reserve price orginally fixed under NAV, PECV, DCF and consultant's method were also lower than the ruling market price. The Audit have, accordingly, maintained that to save the Government from substantial under-realisation from such sales, it was necessary that a claw back provision should have been incorporated in terms and conditions for the sale of shares to the effect that as and when these share wer subsequently sold by the institutions concerned to the general public, a reasonable fixed percentage of the gain on these sales would be transferred back to the exchequer. As already brought out earlier in this Report, the Chief Advisor (Cost) in the Ministry of Finance had also suggested in August, 1991 for stipulation of a clause that as and when these shares are offered to the general public, 90 percent of the difference of the price gained should be transferred back to the Government.

152. Explaining the reasons for not incorporating a claw-back provision in the terms and conditions of sale of shares, the DPE in a note stated that:

> "The sharing of profits with the successful bidders who subsequently disinvest would also have equired the Government to agree with the sharing of losses. Such claw back decision in auctions is not common. Such provision cannot be imposed without eroding the confidence of bidders and reducing the value of bids."

153. During his deposition before the Committee, Shri Suresh Kumar, the then secretary, DPE informed:

> "In fact, this point was raised by many of us. I would request you to understand that we were no longer experts as far as the market is concerned. We were all civil servants. We were reacting like any other ordinary person.....The Mutual Funds and the other said: "If you want a claw-back provision, the Government should make it both ways". When you try to raise money to bring down your fiscal deficit, you should not be putting your budget into jeopardy. It has to be mutual.....It was discussed and discarded. We never thought of it again."

154. The Committee have been informed that the claw-back provisions have been part of the privatisation programme in UK and the intention is only to keep a right on any excessive gains made in after-sale.

VII. IRREGULAR FORWARD TRADING OF SHARES OF PSEs AFTER DISINVESTMENT

155. Clauses 14 and 15 of the Notice issued by the Department of Public Enterprises inviting bids for the second tranche of disinvestment *inter alia* provided:

> "(14) The shares of all the PSEs offered for sale shall be listed out on all principal Stock Exchanges in the country. CCI has already issued necessary guidelines to all the Stock Exchanges in the country to permit listing of shares of Central PSEs, irrespective of the level of disinvestment by the Government.
>
> (15) The financial institutions/mutual funds/banks shall be free to offload their shareholding in these PSEs through the normal Stock Exchange transactions."

156. According to the second report of the Janakiraman Committee to enquire into the securities transactions of the the Banks and Financial Institutions (appointed by RBI), It was stated therein that both the institutional buyers had purchased bundles of shares of PSEs during the second tranch and sold them to certain brokers even before the listing of the shares on stock Exchanges. It was furhter revealed that broker concerned who procured the bundles from Allahabad Bank, had in turn sold one bundle to a foreign bank *viz.* Citibank. Allahabad Bank and SBI Capital Markets had violated the above clauses. (Relevant extracts are appended at Appendix IV). The Committee invited comments of the Ministry of Fiance on the same. In a note furnished to the Committee after evidnece, the Ministry stated:

> "The Government is aware that SBI Capital Markets Ltd. and Allahabad Bank sold shares bought by them at the auctions outside of stock exchanges. SBI Capital Markets Ltd. had purchased three bundles for Rs. 13.32 crores, Rs. 13.18 crores and Rs. 13.12 crores for Bundle Nos. 61, 70 and 80 respectively in the auction held in February, 1992. It had sold Bundles No. 61 and No. 70 both at par to two stock brokers registered with stock exchange. Allahabad Bank had purchased two Bundles No. 17 and 66 for Rs. 13.01 crs. each and had sold the former at Rs. 20.25 crores and the latter at Rs. 20.06 crores both to a stock broker firm registered with the Bomaby Stock Exchange.
>
> Onward sale of shares was clearly intended by the policy and the Government's decision to disinvest concurrently permitted that the share being sold would be further traded. The Department of Public Enterprises had indicated that the sale of shares outside the

stock exchanges is not illegal *per se*. Under the Securities Contracts (Regulations) Act, spot delivery transactions are legally permissible outside the stock exchanges (and regularly resorted to by financial institutions like Unit Trust of India). There is no Government decision which sought to circumvent this freedom to successul bidders.

Therefore, while institutions purchasing shares were free to trade the shares, the question whether there has been any brach of rules in the onward sale of shares by the above mentioned two institutions is being examined. SEBI and the Reserve Bank of India have conducted their own investigations and the Central Bureau of Investigation is also looking into the matter."

VIII. ACHIEVEMENT OF OBJECTIVES OF DISINVESTMENT

157. In their statement of Industrial Policy dated 24th July, 1991, the Government, *inter-alia,* stated:

> "In order to raise resoruces and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers."

158. Referring to the Government decision of disinvestment upto 20 per cent of its equity in selected PSEs in favour of mutual funds and investment institutions in the public sector, the Finance Minister in this Budget Speech of 24th July, 1991 *inter-alia,* stated:

> "This disinvestment would broad-base the equity, improve the management and enhance the availability of resoruces in these enterprises."

159. In reply to a question as to how far the disinvestment in question had really been able to meet the set objective, the DPE in a note stated as follows:

> "The achievement of objectives outlined in the Industrial Policy Statement and the Budget Speech of the Finance Minister is a continuing exercise. The disinvestment helped to achieve the policy goals in some measure. It helped to raise non-inflationary resoruces at a time when it was important to bring the crises situation prevailing in the economy under control. It also helped to ensure disinvestment of shares in a number of PSUs. Once the MFs/FIs etc. off-load shares and the shares get traded in high volume in the market, the expectations under the industrial policy statement like wider participation, improvement of performance of PSEs etc. can be expected to be fulfilled."

160. Drawing the attention of the Finance Secretary to audit observations that Rs. 3038 crores realised from the sale of PSEs shares during 1991-92 was in effect intended to reduce the revenue deficit of the budget,

the Committee enquired whether lowering "fiscal deficit" was ever the objective of the disinvestment exercise. In his reply during evidence, the witness referred to the two budget speeches for the year 1991-92 and stated:

> "...there is a reference that this is being done in order to raise resources. The Government has on many occasions clarified that by resources here we mean non-inflationary resources. There is no difference between saying we are going to raise resources and the other way of saying the same thing which is we are raising resources for having higher fiscal deposits or to lower fiscal deficits...In both cases the main point is the sale was designed to bring resources into the Budget."

161. Asked at what level was the decision taken to utilise the resources through disinvestment of PSEs to meet the fiscal deficit as against that stated in the Budget for 1991-92, the Ministry of Finance in a note stated:

> "The decision was taken while formulating the budget for 1991-92 and incorporated in the Budget Speech to the effect that the Government has decided to disinvest upto 20% of its equity in selected PSEs which is expected to yield Rs. 2500 crores to the exchequer during the year."

162. Elaborating further on the objectives of disinvestment, the Finance Secretary informed the Committee during his deposition that:

> "Our view is that the sale of public sector enterprises achieved some very major objectives of policy. It started a process which has contributed through several tranches to providing resources to the Government budget which was an extremely important objective in order to bring back stablisation in the economy.... think that if we had not done this disinvestment, we would not have achieved the objective. We would also not have achieved another major objective that is to broad base the ownership of the public enterprises."

163. On being enquired about the sale of shares of the selected PSEs to the workers/employees of the PSEs, the Committee were informed by the representative of the DPE that "the share of these companies would be offered to the workers. That decision is under process. No final decision has been taken. There was one particular problem, i.e., regarding the price but that has been sorted out."

164. In their subsequent note, the DPE stated that "the Government have decided in principle to offer shares of selected enterprises to their employees. The modalities of such sale are, however, being worked out."

165. The Industrial Policy Resolution, 1956 gave the public sector a strategic role in the process of development. In pursuit of this objective, massive investments have been made over the past four decades to build a public sector which had a commanding role in the economy. The total

investment in 246 Public Sector Enterprises (PSEs) as on 31.3.1991 was Rs. 113,896.13 crores. The profit earned by these PSEs during 1990-91 was however, Rs. 2,567.74 crores of which significant component was from oil sector and the dividend paid was a mere Rs. 364.86 crores. Ironically, while one of the objectives envisaged in the Industrial Policy Resolution, 1956, for public sector was *inter alia* "to earn return on investment and thus generate resources for development", and while, in accordance with the policy, investment from the exchequer in PSEs witnessed consistent growth from Rs. 29 crores in the first five year plan to Rs. 99,329 crores in 244 PSEs by the end of the 7th five year plan and to Rs. 113,245 crores in 246 PSEs as on 31.3.91, return on the investment remained too low to conform to even the most minimum norms of return in commercial activities. As in 1989-90, the ratio of Net Profit to Capital Employed showed an average of 4.5% which was on increase from 2.73% registered in 1985-86. Out of 244 PSEs existing at the end of the 7th five year plan, 131 PSEs earned on average a profit of 8%, 98 PSEs registered a *loss* of over 16%. As many as 58 PSEs assumed the status of sick and chronically sick enterprises with their accumulated loss causing invariably a drainage of scarce financial resources from the exchequer every year.

166. The suggestions for disinvestment of Government shareholding in PSEs had been under consideration of the Government in different forms atleast since May, 1990. But the first public pronouncement of the Government decision to disinvest upto 20 per cent of its equity in selected PSEs was made on 4th March, 1991 at the time of presentation of Central Government's Interim Budget for 1991-92. Subsequently, the Union Government announced in their statement on Industrial Policy on 24.7.1991 and in the Union Budget for 1991-92 presented on the same day that apart from revitalising the public sector, a part of the Government shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers so as to raise resources and encourage wider public participation. The Union Budget for 1991-92 provided for receipts of Rs. 2500 crores on this account. In pursuance of the above, Government carried out partial disinvestment in two phases in December, 1991 and February, 1992 and realised a sum of Rs. 3038 crores from the sale proceeds of the shares held by Government in 30 selected PSEs. The disinvestment programme was carried out by the Department of Public Enterprises (DPE) in association with the Ministry of Finance (MOF) and other Government agencies concerned. The audit review based on findings noticed in the course of test audit of the records of the DPE and further examination of the subject by the Committee have revealed a number of inadequacies and disquieting features in the implementation of the disinvestment process which are dealt with in the succeeding paragraphs.

167. The Committee note that out of the 244 PSEs, only 31 out of 131 profit making concerns were finally selected for disinvestment during 1991-92. According to the note placed before the CCEA on 20.11.1991 the

disinvestment was to be done to Investment Institutions/Financial Institutions/Mutual Funds/Nationalised Banks. The selection of PSEs was proposed to be done by the DPE in close consultation with the concerned PSEs, the Administrative Ministries, the Planning Commission and the Ministry of Finance. The Committee's examination has however revealed that while a number of PSEs and their Administrative Ministries had suggested exclusion of some of the PSEs from the proposed disinvestment on specific and convincing grounds, their suggestions were not given due consideration. The Committee, in this regard, took note of the comments made by both the Finance Secretary and the then Secretary (DPE) in their depositions, about the general reluctance among the Executives of PSEs as well as among the authorities of their administrative Ministries to agree with disinvestment fearing it would result in interferance with their personal comforts and erosion of their authority. They also deposed that, final decision about disposal of shares of PSEs had to be taken by Government, being its owners, and not by the Executives of the PSEs. The Committee have difficulty in accepting his contention. This indicates the attitude of the Ministry of Finance towards the opinion of the PSEs and their Administrative Ministries concerned. Even in the note for CCEA on 24.12.91, the Ministry of Finance did not elaborate its reasoning too well against the objections/reservations raised by some Administrative Ministries in regard to disinvestment of shares of their respective PSEs, but simply stated that the shares of those PSEs could not be excluded from disinvestment. The Committee, at this stage, can only express their concern over the unsatisfactory manner in which selection of PSEs was made for the disinvestment exercise undertaken during 1991-92.

168. The Committee find that for formulation of guidelines for valuation of shares of PSEs, a Committee under the then Secretary, DPE was constituted on 19th August, 1991 and this Valuation Committee submitted its report in September, 1991. The Committee are surprised over the casual manner in which the Valuation Committee functioned. The Valuation Committee was to be assisted by Financial Advisers (FAs) on the Ministries as representative of the Department of Expenditure. However, they were not associated on the ground that the Valuation Committee had very little time and the selection of PSEs had not been finally completed. The Valuation Committee had only two sittings on 26th and 30th August, 1991 which was attended only by a few members. No Minutes of the discussions held at the sittings of the Committee were maintained. As deposed by the then Secretary (DPE), the Report was not considered in detail at a meeting of the Committee and it was got approved even by circulation among some members of the Committee only. It was signed by only 4 out of 14 members of the Committee including 6 coopted Members. Interestingly one of the signatories was not even a member of the Valuation Committee and signed on behalf of a member of the Committee namely, Secretary in the Department of Chemicals & Petrochemicals. The Commit-

tee are extremely unhappy over the manner in which the work of the Committee was carried out. During evidence the then Secretary (DPE) informed the Committee that he did not consider it necessary to obtain the signature of coopted members as he could not waste his time in circulating the Report to them. He also observed that "everybody is unwilling to take part (in the disinvestment process). Especially, the bureaucrat and the public sector chief were unwilling because they did not want their comfortable lives to change." The Committee also find that some of the important suggestions of the members of the Valuation Committee which could have had important bearing on the proposed disinvestment were not incorporated in the report of that Committee. These included broadening of the base of offering the shares to approved share brokers, public limited companies, approved pension funds, revaluing the shares of PSEs, etc. The Finance Secretary during his deposition before the Committee also stated that "the Suresh Kumar Committee did not give us any unambiguous guidance". From these facts, the Committee can only conclude that the then Secretary (DPE) who was Chairman of the Committee inexplicably functioned in an arbitrary and casual manner and the Committee failed to fulfil the objective for which it was set up.

169. The Committee note that the Valuation Committee headed by the then Secretary (DPE) had recommended that certain expert agencies using different methods for equity price determination could also be consulted by the Government before finalising the offer price for shares of PSEs. The Government, accordingly, appointed in September 1991, Strategic Consultants Pvt. Ltd. as consultants to advise on the pricing of shares of selected PSEs. The Committee have been informed that two consultancy firms namely Strategic Consultants and Coopers & Lybrand Pvt. Ltd. were already in touch with the DPE and were mentioned in the report of the Valuation Committee. Although other consultancy firms were also stated to have offered their services to the DPE, Strategic Consultants were appointed as they were stated to have the required experience and the offer given by them was also found reasonable by the Department. The Committee would like to point out in this connection that no specified criteria was laid down about the qualifications of the Consultants and there were no records to establish that the offers made by various consultants were properly evaluated. The Consultants submitted their report in three batches on 10th, 12th and 18th December, 1991. The Committee are perturbed to observe that the recommendations of private consultant based on the prevalent state of stock market specific to the industry in which each PSE could be classified were not finally made use of by the Government to their best commercial advantage and the entire expenditure of Rs. 4.06 lakhs incurred on them was ultimately rendered infructuous.

170. The Committee are surprised to find that the Government decided to offer for sale the shares of selected PSEs by adopting an unprecedented and unique method of offering the shares in the form of bundles consisting of

nine PSEs, from each category, viz., very good, good and average. The Committee have been informed during evidence that the proposal for sale of shares of PSEs in bundles was taken up before the CCEA by the Ministry of Finance and the main reason for bundling of shares was to ensure that the good enterprises were disinvested alongwith those which were "less investor fancy". The institutional buyers did their own valuation for shares of various PSEs and made composite bids for the bundle as a whole. The Committee are in no doubt that the sale of shares in bundles had affected substantially the transparency of the transactions. While the Committee find no perceptible gains from bundling, they are convinced that this method made it difficult even for the Government to assess the bids received in right perspective and finally determine a fair reference unit price for each PSEs share, as would be seen from the subsequent paragraphs. Clearly, the natural price level of shares could not emerge from this unusual method and the sale in bundles had the effect of depressing the value realisations which had obviously done more harm than the expected advantage of clearing the sale of shares of average PSEs alongwith the 'very good' and 'Good' PSEs. During evidence, the Finance Secretary admitted, "in retrospect our assessment is that the best way of selling the shares to get the highest possible price is really to sell them individually". The Committee do not wish to add anything to his own admission of adoption of a worng procedure.

171. The Committee note that the Government approval in November, 1991 envisaged that the Valuation of shares of PSEs would be according to the three methods of Net Asset Value (NAV), Profit Earning Capacity Value (PECV) and Discounted Cash Flow Value (DCF) and the average of the two highest values so obtained would be taken as the fair value or reserve price for that PSEs shares. It was also contemplated that the total value of the equity in each bundle would be about Rs. 5 crores based on the fair value of shares of each PSE. Strangely enough, the valuation of the shares in the bundles was not made on the basis of the methods enunciated above. The DPE constituted 825 bundles of the shares of selected PSEs for sale keeping the value of each bundle around Rs. 5 crores merely on an estimated basis keeping in view only the NAV and PECV. Even though the DCF value was admittedly, received from most of the PSEs before the date on which notice inviting bids was issued viz., 10.12.1991, these values were not at all used for determining reserve prices of the PSEs shares on the ground that DCF values required detailed checking. The Committee are surprised that instead of valuing the shares in accordance with the method as envisaged, the DPE hastened with Notice inviting bids for the sale of the 825 bundles prepared on the basis of tentative values. During his deposition, the then Dy. Director (Cost) in DPE informed the Committee that he got instructions from the then Secretary (DPE) for preparing bundles on estimated value. Curiously enough, there is no record in the DPE to suggest the formula on the basis of which tentative prices were worked out. What is more specious is the plea

put forth by the then Dy. Director (Costs) in the DPE during his deposition that the tentative values were "adopted for the convenience of preparation of bundles."

172. Subsequently, when the reserve prices were actually fixed between 14th to 18th December, 1991 in consultations with PSEs; their administrative Ministries and the MOF on the basis of earlier decisions of Government and also by taking into account the price range recommended by the Private Consultants, the value of bundles varied so much that 129 bundles had value above Rs. 10 crores each and 691 bundles had value ranging between Rs. 8 to 10 crores each. The Committee's examination has also revealed that value of bundles no. 787 on the basis of reserve price so fixed touched a figure as high as Rs. 14.02 crores. Considering the fact that a cardinal principle for calculating the fair value of shares of each PSE was already laid down and a decision taken by the Government to constitute bundles of value of Rs. 5 crores each, the Committee view seriously the aberrations on the part of the then Secretary (DPE) in constituting bundles at the tentative and estimated values in an unauthorised and arbitrary manner.

173. Yet another disquieting aspect observed about formation of bundles by the Committee is that in contravention of the Government decision to off-load the shares directly to mutual funds financial institutions at the market price in the case of PSEs already listed on the Stock Exchanges, the shares of two such Companies namely Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) were also included in the bundles for sale. The argument put forth by the DPE that "the shares of these PSEs were being traded at sporadic interval in relatively small lots" is incorrect and therefore not at all acceptable to the Committee especially in case of shares of CRL whose shares were not only being traded in high volume at Cochin Stock Exchange during the three months preceding the disinvestment but also upgraded to the specified group on Bombay Stock Exchange on 3.1.1992 due to the large trading volumes and liquidity. The Committee are also not inclined to accept another plea of the DPE that it was decided that the inclusion of these PSEs would serve as a sweetner for the bundles and there by generate active interest in bidding. In the opinion of the Committee, this case clearly reveals the scant regard shown by the DPE in following Government decisions in regard to formation of bundles containing shares of PSEs. The Committee therefore, recommend that Government should undertake a thorough probe to identify the apropriate level at which this lapse had occurred and fix responsibility for the same.

174. The Committee note that the Finance Minister in his budget speech on 24.7.1991 had stated that Government proposed to raise Rs. 2500 crores from disinvestment of its equity in selected PSEs during 1991-92. Obviously, this was known to the institutional buyers. The DPE themselves had anticipated that the institutions from whom bids were invited intended to buy shares worth no more than Rs. 2000-2500 crores because of financial constraints. In the circumstances, the Committee consider it strange that

rather than restricting the sale of PSE shares to a level consistent with Government proposals or in proportion to the anticipated funds available with the institutional buyers, the DPE in an unauthorised and imprudent manner chose to offer shares worth much higher in magnitude. The bids were also invited from mutual funds/investment institutions only and not from nationalised banks as mentioned in CCEA note dated 20.11.1991. Consequently, uncompetitive bids numbering only 710 for 533 bundles for a total value of Rs. 2300.84 crores were received in the DPE. In the absence of any appraisal of the financial capability and the bidding power of the various institutional buyers, 72.61 per cent of the bundles had only one bidder, 22.89 per cent of the bundles had two bidders and it was only in 4.50 per cent cases that three or more bids were received. Surprisingly, 76 per cent of the total bids were made by two institutions and the remaining seven institutions taken together contributed only 24 per cent of the bids. The Committee are dismayed to note that as against the lowest reserve price of a bundle of Rs. 6.99 crores and the highest reserve price of Rs. 14.02 crores, the highest value of a bid for a bundle was only Rs. 4.97 crores. Despite the bids being highly non-competitive with 387 bundles having only one bidder and two institutions virtually dictating the prices, the Committee are amazed to observe that the Government did not choose scrapping the bids.

175. The Committee find that after the receipt of bids which were found to be much below the reserve price fixed for each bundle, various alternatives were discussed by the officers of the Ministry of Finance with Finance Minister on 19.12.1991. One of the suggestions was that since for about 300 or so bundles only one bid had come in and none for another 300, these bids should be rejected as they were only single offers and better bids could come in if the bundles were reoffered. Another suggestions was to reject all the bids, rebasket the bundles and re-offer them to all. Yet another proposal made was that the PSEs share should be sold individually to get the best offers instead of bundling them. The Committee are dismayed to find that all these alternatives were rejected and the Ministry of Finance went in with the proposal to CCEA for acceptance of the bids received for 533 bundles by suggesting refixation of the reserve prices in a manner which resulted in lowering of the reserve prices to the extent of around 64% of the original reserve prices. The Committee strongly disapprove of the action taken by the Ministry which resulted in potential gains to the bidders at the cost of the Exchequer.

176. The Committee further note that having taken the questionable decision to proceed with the uncompetitive bids received, an exercise was undertaken to revalue the shares, perhaps with reference to the bids received. From the copies of the computer print outs scrutinised by the Committee, it was seen that DPE undertook an exercise for valuing bundles on the basis of the 'High' and 'Low' prices of shares as recommended by the private consultants appointed by the Government and also on an

average of NAV and PECV at industry capitalisation rates. However, this was coming fairly close to the reserve prices arrived at by the Government. Further even the value of bundles on the basis of average of NAV and PECV at industry capitalisation rate was found to be higher than the bids prices. In the circumstances DPE proposed to refix reserve prices on an average of NAV and PECV at a uniform capitalisation rate of 10 per cent instead of at industry-wise capitalisation rate. The net result of adoption of a revised method of valuation was that the reserve prices of PSEs shares were drastically reduced to an extent ranging between 21.95 per cent to 86.67 per cent. In 24 of the 31 cases the reduction in value was above 50 per cent. In the light of the facts narrated above, the Committee regret to conclude that the entire exercise of valuing shares by adopting a revised method was deliberately resorted in order to accommodate the bids received. Obviously, the overriding consideration of raising funds before the end of December, 1991 took precedence over the larger interest of public exchequer.

177. The Committee note that while recommending the revised method valuation, the Ministry of Finance in their note dated 24.12.1991 took the pleas that the proposed procedure was in line with CCI guidelines. In this context, the Committee would like to highlight the specific observations made by the Suresh Kumar Committee in its report that "the disinvestment of Government share holdings in PSEs in a sale by a shareholder to a buyer. Therefore, the guidelines issued by the Controller of Capital Issues (CCI), Department of Economic Affairs for valuation of equity shares of public companies are not applicable. The Ministry of Finance themselves had in their note for CCEA dated 20.11.91, had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs" as "these guidelines generally underprice the shares". Since application of CCI guidelines for valuation of PSE shares for the disinvestment proposal was not considered to be relevant right from the beginning, the Committee are not convinced of the subsequent turn-around in the approach of the Ministry of Finance on the issue. The Committee are led to conclude that the Ministry of Finance failed to advise the CCEA in the right perspective and they cannot absolve themselves of this responsibility.

178. The Committee are also constrained to point out that the Ministry of Finance did not apprise the CCEA about the extent to which the reserve prices of PSEs fixed on the basis of earlier Government decisions would be reduced as a result of change over to a new formula based on CCI guidelines and by adopting a uniform capitalisation rate of 10 per cent. The Committee's analysis of the 16 bundles revealed that the reserve price of these 16 bundles which were originally fixed at Rs. 155.72 crores were reduced to Rs. 49.40 crores after reserve prices were refixed by adopting the new formula envisaged on 24.12.1991. In the opinion of the Committee, this tellingly shocking extent of reduction of Rs. 106.32 crores in 16 bundles speaks volume about the ultimate reduction effected in the reserve price of

the bundles offered for sale in December, 1991. During his evidence the Finance Secretary deposed before the Committee that the Cabinet was not informed as to what was the particular price that came out of a particular formula. In extenuation he also stated, "even in the earlier Cabinet note only the formula was discussed". The Committee are unable to accept this plea. They consider it deplorable that such substantial financial implications involved in valuation of PSEs share were not brought to the notice of CCEA at the time of submitting the proposal for final approval of the Government. While agreeing with the assertion made by the Finance Secretary during evidence that "Cabinet does not decide individual price", the Committee are of the firm opinion that this aspect involved a major policy decision of calculating fair market value of PSEs shares involving thousands of crores of rupees and thus all relevant facts and figures were required to be placed before the CCEA for complete appraisal. That this was not done speaks of the manner in which the Ministry of Finance preferred to brief the CCEA on such a crucial issue of national importance and having substantial financial implications.

179. The Committee would also like to point out certain other aspect arising out of the note placed before the Cabinet on 24.12.1991. One of the arguments adduced by the MOF for adopting a new valuation procedure was that the valuation price fixed earlier were *inter-alia,* based on DCF values provided by PSEs which according to the Ministry were based on optimis cash flow projections and the reference price computed earlier might not be realistic. Since this method was suggested by the MOF themselves after due consideration and included in the CCEA note dated 20.11.1991, the Committee consider this argument to be only an after-thought. As the DCF value projections were based on MOUs reached with the PSEs, the Committee are surprised at the deposition made by Finance Secretary during evidence that "we discovered later on that MOUs were based on unrealistic assumptions about how much resources will be made available.

180. Another disquieting aspect observed by the Committee was that the new formula envisaged computation of PEC value a uniform capitalisation rate of 10 per cent. The Committee wonder whether application of a uniform capitalisation rate was appropriate considering the fact that the PSE selected for disinvestment differed widely in terms of their investment base, profitability, market conditions, etc.

181. The Committee have been informed that for determining the reserve price of PSEs shares in the second phase of disinvestment, the DPE obtained the advice of the Industrial Credit and Investment Corporation of India Ltd. (ICICI). Based on the recommendations made by the ICICI, the DPE prepared a revised list of 16 PSEs out of 31 selected PSEs for disinvestment and their valuation was done with reference to the recommended prices of ICICI. The valuation of the shares by ICICI as admitted by them was arrived at without scrutinising in detail the profitability projections given by

the companies and also by not taking into account the major changes in the future plans of the PSEs. Since those considerations had an important bearing on the prices of shares, the Committee are surprised that it was not found necessary to further examine the inputs provided by ICICI in order to arrive at a more realistic price. It is also pertinent in this connection that the prices fixed on the basis of recommendation of ICICI was much lower than the reserved prices worket out originally.

182. The Committee further note that while Notice inviting bids for the Second tranche was issued to 36 financial investment institutions/mutual funds/merchant banks on 11 February 1992 for fresh 120 bundles with its reserve price fixed uniformly at Rs. 10.08 crores per bundle, only 273 bids were received from 19 institutions for all the 120 bundles and it was only in 35 per cent cases where three or more bids were received. Surprisingly, four bidders had contributed 68 per cent of the total bids made. From the foregoing, the Committee regret to conclude that no lessons were learnt by the DPE from their past experience and no efforts were made to prepare the bundles with smaller values so as to enable larger participation in bidding.

183. The Committee's examination has revealed that Steel Authority of India Ltd. (SAIL) was included in the disinvestment programme during 1991-92 in the first and second tranche against the advice of the Ministry of Steel which had felt that disinvestment of shares of SAIL might not be appropriate mainly on the grounds that the market perceptions for those shares were likely to improve during next 2-3 years as a reult of decontrol of iron and steel prices and the completion of the ongoing modernisation of the steel plant projects and that the Government would stand to lose as none of the three methods originally suggested for valuation of shares would reflect the real value of its shares. During evidence the Committee were informed by the Finance Secretary that the concern of SAIL was reflected before the CCEA who took a "conscious decision" to limit the disinvestment of shares of SAIL to 5 per cent. The Committee will, however, like to point out that despite the disinvestment of the shares of SAIL being limited to 5 per cent, it actually represented around 23 per cent of the total number of shares of all the 30 PSEs disinvested during 1991-92 since the paid up capital of the SAIL was very high. The Committee further note that although the decontrol of steel prices was announced on 16.1.1992, SAIL was not excluded from the second phase of disinvestment. The DPE maintained that the impact of any change in Government control could be perceived only when considerable trading of the shares had taken place in the market and that the ICICI had taken into account the impact of decontrol while recommending the price of shares of SAIL for second tranche. It is unfortunate that DPE went on record to say that the ICICI had taken into account the impact of decontrol of steel while recommending the price of shares of SAIL which is contrary to the facts placed before the Committee as the ICICI had categorically stated that the reassessment of issue price of SAIL was possible after scrutiny of the impact of steel

decontrol. The Committee deplore this wrong statement. The Committee also find that the impact of decontrol of iron and steel on shares of steel industries was noticeable immediately after decontrol when the share price of TISCO had jumped up by almost Rs. 50. In view of the foregoing, the Committee are unable to understand as to why the shares of SAIL were included in the second phase and how the reserves price of Rs. 10-12 for a share of SAIL as adopted in the first tranche during December, 1991 was also adopted in the second tranche when Government had already announced its decision to decontrol the steel prices. Obviously, the whole issue was dealt with in a manner detrimental to the revenue interests of the Government and calls for a plausible explanation.

184. Another disturbing aspect noticed by the Committee was that the disinvestment process was not preceded by adequate publicity. No efforts were made to publicise the maiden venture of the Government so as to attract the favourable market response. The gains that could have been achieved by doing so can well be visualised in terms of what Indian Petrochemical Corporation Ltd. actually achieved subsequently in November, 1992 when their public issue for fresh equity shares of Rs. 10 each for cash at a premium of Rs. 150 per share was fully subscribed closing on the earliest date despite the stock market being bearish in the post-scam period.

185. From the facts stated above, it is abundantly clear that the disinvestment of Government shareholding in selected PSEs during 1991-92 entailed loss of sizeable magnitude to the public exchequer. The Report of the C&AG has estimated that the reduction in original reserve prices resulted in under realisation of value to the extent of Rs. 3442 crores. While the precise extent of loss could be anybody's guess, the Committee consider it relevant to draw attention to the following facts which are clearly indicative of lower realisations:

(i) The market prices of shares of 10 PSEs whose shares were listed as at the end of October, 1992 revealed that in 6 cases the reserve prices originally fixed under NAV, PECV, DCF and consultant's method were also lower than the ruling market price. According to Audit, the potential gain in October, 1992 to the institutional buyers ranged between 126.62 per cent to 615.53 per cent over the average price at which these shares were sold in the two phases of disinvestment during 1991-92.

(ii) In respect of CRL whose 42.19 lakhs share were disinvested, as against the final reserve price of Rs. 58 fixed by Government for each share of face value of Rs. 10, the market prices actually quoted in Bombay Stock Exchange in December, 1991 ranged between 960 and Rs. 1040 (for face value of Rs. 100/- each share). Subsequently, when the shares of CRL were subdivided into face value of Rs. 10 each, the market price had increased manifold

touching a high of Rs. 335 in February, 1992; Rs. 375 in April, 1992 and Rs. 665 in September, 1992.

(iii) One of the institutional buyers, viz., Allahabad Bank had purchased two Bundles No. 17 and 66 during the second tranche for Rs. 13.01 crores each and had sold the former at Rs. 20.25 crores and the latter at Rs. 20.06 crores both to a stock broker firm which had offered their rates even before the Allahabad Bank had made their bid. This is clearly indicative of the market perception towards the PSEs shares at the relevant time.

186. The Committee note that the Chief Advisor (Cost) in the Ministry of Finance as a member of the Valuation Committee, had suggested in August, 1991, that in the absence of market value of the shares of PSEs, the shares might be transferred to selected mutual funds/financial institutions with a stipulation that as and when these shares were offerred to general public 90 per cent of the difference of the price gained should be transferred back to the Government. Evidently, there is nothing on record to indicate that this suggestion for inclusion of a clawback provision for sharing of profits was given the consideration that it deserved. In this context, the Committee are unable to appreciate the reply of the DPE that the sharing of subsequent profits would have also required the Government to agree with the sharing of losses and that such a provision could not be imposed without eroding the confidence of the bidders. Significantly, the claw-back provisions have been part of privatisation programme in the U.K. The Committee consider it unfortunate that no efforts were made with a view to protecting the revenue interests of the Government either by the DPE or the MOF to ascertain the practices adopted in this regard in other parts of the world. To say the least, this is yet another instance of the casual manner in which the DPE and the MOF dealt with the various facts of disinvestment exercise undertaken in 1991-92.

187. The Committee note that the terms and conditions of the sale of PSEs shares imposed by the DPE in February, 1992, *inter-alia* stipulated that shares of all the PSEs offered for sale shall be listed on all principal stock exchanges and that Financial Institutions/mutual Funds/Banks shall be free to off-load their share holdings in these PSEs through normal Stock Exchange transactions. The Committee however, find that two institutional buyers namely, Allahabad Bank and SBI Capital Market Ltd. purchased bundles of shares of PSEs during the second tranche and sold them to certain brokers even before the listing of shares on Stock Exchange. The Committe have been given to understand that the question of breach of Rules in the onward sale of shares by these two institutions is being examined in the Ministry of Finance and also looked into by the CBI. The Committee hope that the Government would take appropriate steps to expedite the enquiry being undertaken by the CBI and apprise the Committee of the action taken thereon.

188. During the course of their examination on 22nd & 23rd November,

1993 Committee had desired to be apprised of the details regarding similar type of transactions having taken place, if any. The Committee cannot but express their displeasure over the failure of the Ministry of Finance to make available the requisite information so far.

189. The Committee note that the DPE had prepared a paper dated 30 July, 1990 for consideration of Cabinet regarding measures needed for improving the efficiency and productivity of PSEs and it mentioned *inter alia* that 'as a last resort, where turn around is not possible, closure or disinvestment preferably to workers should be considered in order to improve the overall public sector picture. The Council of Ministers on 31 July, 1990 desired that some innovative suggestions should be considered for raising resources for PSEs including loss making enterprises in need of revamping. Later, in the wake of heavy fiscal deficit in February, 1991 the Cabinet Committee on Political Affairs (CCPA) considered the possibility of raising resources through partial disinvestment in selected PSEs and the first public announcement was made in this regard on 4 March, 1991 at the time of presentation of interim budget of the Union Govt.

In terms of the statement of Industrial Policy and the Budget speech of 24th July, 1991 the main objectives behind partial disinvestment of Government shareholdings in selected PSEs were to raise resources and encourage wider public participation especially by offering the shares to general public and the workers/employees of the PSEs. The Committee regret to note that by restricting the sale of PSEs to limited number of financial institutions/mutual funds/merchant banks, the Government could not realise the envisaged objective of wider public participation as the general public and the workers/employees of PSEs were not included in the disinvestment exercise undertaken in 1991-92. The Committee take a serious view of the fact that the Government is still working out the modalities of sale of shares of selected PSEs to their employees. They trust that at least after this Report, the Government will take urgent and appropriate steps in this regard.

The Committee also note that in his budget speech the Finance Minister had stated that this disinvestment would *inter-alia* enhance the availability of resources in the public enterprises. The Committee are unhappy to note that this objective also remained unfulfilled as the resources raised through disinvestment were used for bridging the revenue deficit instead of making available these funds to the PSEs.

190. To sum up, the examination of disinvestment programme of Government share holding in selected PSEs during 1991-92 has revealed several shortcomings/irregularities, Briefly, these were:

(a) Selection of some PSEs for disinvestment despite the pleas made by some of them/certain administrative Ministries for exclusion;

(b) Delay in finalisation of PSEs for disinvestment and failure to generate investors' enthusiasm;

(c) Inadequate functioning of Suresh Kumar Committe;

(d) Infructous expenditure incurred in commissioning the services of private consultant;

(e) Incorrect method of "bundling" in contravention of Government decisions;

(f) Haste in accepting uncompetitive bids;

(g) Re-fixation of reserve price to accommodate those bids;

(h) Failure to apprise the Cabinet of the effect of the revised reserve prices vis-a-vis earlier reserve prices;

(i) Failure to incorporate claw-back provision;

(j) Forward sale of shares before listing and above all failure to achieve the pronounced objectives.

During their examination, the representatives of the MOF and the DPE repeatedly pleaded in their defence that the process was unprecedented in the country. The Committee are of considered view that most of the problems/shortcomings could have been avoided if the Government had not chosen to push through the disinvestment with hurry to raise the resources by the end of December, 1991. The Committee are yet to be explained to their satisfaction of the extraordinary pressures which necessitated such grave urgency resulting in incalculable losses due to under realisations on the sale of the PSE shares. The Committee are covinced that the lack of transparency in the manner in which the whole exercise was undertaken requires to be probed with a view to finding out the persons responsible for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee would like to be informed of the concrete action taken in the matter within a period of six months.

NEW DELHI;
27 April, 1994

7 Vaisakha, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

APPENDIX I

(*Vide* para 1)

FINANCIAL PERFORMANCE OF PUBLIC ENTERPRISES (1989-90)

Group	Number of Enterprises	Capital Employed	Accumulated Losses	Net Profit/ Loss during 1989-90	Ratio of Net profit to Capital Employed (%)	Number of Employees (000s)
			(Rupees Crores)			
Profit Making	131	72130.1 (85.5)	2780.3 (21.7)	5740.8	8.0	1431.0 (64.4)
Loss Making	98	12210.9 (14.5)	10052.8 (78.3)	-1959.1	-16.1	790.5 (35.6)
Grand Total	229	84341.0 (100.0)	12833.0 (100.0)	3781.7	4.5	2221.5 (100.0)

Note: The figures in brackets represent percentages to the total

APPENDIX II

(Vide para 9)

REPORT OF COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31st MARCH, 1992 (NO. 14 OF 1993), UNION GOVERNMENT (CIVIL) RELATING TO 'DISINVESTMENT OF GOVERNMENT SHAREHOLDING IN SELECTED PUBLIC SECTOR ENTERPRISES (PSEs) DURING 1991-92'

1. *Introduction*

The public sector has been central to India's economic development. In the pursuit of development objective in a mixed economy, public sector enterprises in critical sectors of the economy have played an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.

The total investment including equity, loans and deferred credits in 246 PSEs amounted to Rs. 1,13,233.68 crores as on 31st March 1991. As against this the profit earned by these PSEs during 1990-91 was Rs. 2367.74 crores and the dividend paid was a mere Rs. 364.86 crores. Such minimal generation of surplus has been perceived by the Government as responsible for the inability of the PSEs to regenerate themselves in terms of new investments as well as in technology development. Proposal of raising resources for the PSEs through investment by the public sector financial institutions/banks in a basket of shares of both profit and loss making enterprises had been under consideration of the Government since July 1990 and it was decided in March 1991 to undertake partial disinvestment of shares of PSEs.

In the aforesaid background the Union Government announced in their statement on Industrial Policy on 24th July 1991 and in the Union Budget for 1991-92 presented on the same day that apart from revitalising the public sector, a part of the Government's share-holding in the public sector would be offered to mutual funds, financial institutions , general public and workers so as to raise resources and encourage wider public participation.

The Union Budget for 1991-92 provided for receipts of Rs. 2500 crores on this account. In the two phases of dis-investment carried out in December 1991 and February 1992 the Government realised a sum of Rs. 3038 cores from the sale proceeds of its shares held in 30 selected PSEs.

2. *Organisational set up*

The PSEs are under the administrative control of the various Ministries

and Departments of the Government of India. The Department of Public Enterprises (DPE) under the Ministry of Industry acts as the nodal agency for all PSEs and assists in policy formulation pertaining to the role of PSEs in the economy as also in laying down policy guidlines on performance improvement and evaluation, financial accounting, personnel management and in related areas. It also collects, evaluates and maintains information on several areas in respect of PSEs. The DPE also provides an inter-face between the Administrative Ministries/Departments and the PSEs. In fulfilling its role it inter-acts with other Ministries and organisations as also premier management institutes in the country. The disinvestment of Government shares in selected PSEs during 1991-92 was carried out by the DPE in association with the concerned PSEs and their administrative Ministries/Departments, Ministry of Finance and the Cabinet Secretariat.

3. *Arrangement for valuation and sale of shares of PSEs*

After the announcement of the proposal for partial disinvestment in the Union Budget 1991-92 and the Industrial Policy statement 1991, the process of selection of PSEs whose shares were to be disinvested was undertaken by the Department of Public Enterprises (DPE). Out of the total 244 PSEs as on 1.4.1990, the DPE recommended disinvestment of shares of only 41 PSEs. PSEs which were (i) under construction stage, (ii) whose net asset value (NAV) per share was either negative or less than the face value, (iii) which were of insignificant size, (iv) where current level of profitability was low, (v) those falling under Section 25 of the Companies Act 1956, (vi) in which share-holding of the Government was below 60 per cent, (vii) those functioning in power generation/transmission sectors and (viii) those in the oil sector having special relationship with the Government and (ix) also those meeting defence needs of the country were excluded from the purview of disinvestment.

Out of these 41 PSEs, ten PSEs were later excluded at different stages for reasons such as some of them being consultancy firms, some having gone into losses during 1990-91 and the remaining engaged in production of strategic nature. Finally a list of 31 PSEs was drawn up in the first week of December 1991. Of the 31 PSEs, 8 were categorised as 'Very Good', 12 as 'Good' and 11 as 'Average'. The categorisation of these PSEs was apparently made on the basis of the Net Asset Value (NAV)/ Share vis-a-vis face value Rs. 10/- of the share of the PSEs as on 31st March 1991. The PSEs whose NAV was Rs. 50/- per share and above were categorised as 'Very Good', between Rs. 20/- per share to Rs 49 per share as 'Good' and between Rs. 10/- to Rs. 19/- as 'Average'.

3.1 *Formulation of guidelines for valuation of shares of PSEs*

In August 1991, the Ministry of Finance constituted a Committee under the Chairmanship of the Secretary (DPE) for formulating guidelines for valuation of shares of PSEs which were to be disinvested.

Based on the recommendations of the Committee submitted on 5th September 1991, the DPE issued detailed guidelines to the Chief Executive of the PSEs identified for disinvestment for valuing the shares by three different methods namely:

(a) Net Asset Value (NAV) Method.

(b) Profit Earning Capacity Value (PECV) method at capitalisation rate of 4 to 8 per cent.

(c) Discounted Cash Flow (DCF) method based on the future expected free cash flow streams for a period of about 5 years discounted at appropriate rates.

The PSEs were asked to submit the necessary data by 25th October 1991 to enable the DPE to fix the 'reserve price' for sale of shares in respect of each PSE.

3.2 *Appointment of Consultant for valuation of shares*

The Government also appointed a private Consultancy firm in September 1991 to advise on the pricing of the shares of selected PSEs. The Government's intention was that if the value of shares computed by the consultants was higher than the values arrived at by the other methods it would be taken to increase the valuation of the shares. The Consultants submitted their report in three volumes on 10th, 12th and 18th December 1991. The Consultants based their recommended values taking into account prevalent stock market sentiment specific to the industry in which each PSE could be classified.

3.3 *Modus operandi for sale of shares*

The following decisions were taken by the Government at the outset:

(a) Disinvestment would be done in phases, the first phase to be implemented in December 1991.

(b) Level of disinvestment would vary from 5 per cent to 20 per cent, keeping in view that Government shareholding would not fall below 51 per cent.

(c) Shares of all selected PSEs would be offered in the form of bundles consisting of nine PSEs (3 PSEs from each category viz. very good, good and average) through a process of bidding.

(d) Shares would be sold to only mutual funds and investment institutions in the Public Sector who would gradually off load these shares into the market so as to finally ensure a wider holding of the ownership of these shares.

(e) DPE would finalise the list of PSEs for disinvestment in consultation with the administrative Ministries and Ministry of Finance, value them and prepare bundles.

While taking the above decisions in November 1991 the Government also decided that the Controller of Capital Issues (CCI) norms for share

valuation would not be applicable for the envisaged disinvestment since they tended to generally under value shares. The CCI norms provide for share valuation by computing the average of NAV and PECV at 15 per cent capitalisation rate for manufacturing companies subject to suitable adjustment with reference to the stock market prices inrespect of listed companies. The government decided that the valuation of shares of selected PSEs would be according to the three methods indicated in para3.1 above. The average of the two highest values so obtained would be taken as the 'fair' value or the 'reserve price' for that PSE's share. It was also decided that the total value of the equity in each bundle would be about Rs. five crores based on the fair value of the shares of each PSE. In the case of PSEs already listed on the stock exchanges, it was further decided that disinvestment of Government equity shares would be made directly to mutual funds and investment institutions at the market price.

3.4 *Invitation of bids, fixation of reserve prices*

The DPE issued notices, inviting bids for the sale of shares of 31 selected PSEs from 10 financial institutions/mutual funds on 10th December 1991. All the PSEs shares were grouped into 825 bundles each consisting of the shares of 9 PSEs in certain proportions determined by the DPE. On the basis of data furnished by the PSEs for the valuation of shares and the report submitted by the consultancy firm, the 'reserve price' of shares of each selected PSE was fixed by the DPE in consultation with the representatives of the PSEs concerned, Administrative Ministry of PSE and Ministry of Finance between the 14th and the 18th of December 1991.

3.5 *Revision of reserve prices*

After the bids were opened on 18th December 1991, it was found that the bid prices were far below the value of bundle computed with reference to reserve price and the number of shares in the bundles and, therefore, could not be accepted. Approval of the Government was, therefore, obtained on 24th December 1991 for empowering the DPE to sell the shares of selected PSEs by accepting the highest of the bids including single tender received, so long as these were above the average of the NAV and PECV computed using an average capitalisation rate of 10 per cent. The price of the bundle so arrived at could further be reduced upto 10 per cent, if necessary. The need for reducing the reserve price of each PSE share fixed earlier was justified on the ground that the reserve prices fixed earlier had been inflated due to optimistic projections of future cash flows by the PSEs.

Out of the 825 bundles offered for sale, bids were received from 9 mutual funds/institutions for 533 bundles. The bids were evaluated against the reserve price of each bundle worked out on the basis of the revised reserve price fixed for each PSE share as included in the bundle. 406 bundles for a total value of Rs. 1427 crores were sold. Acceptances were sent by DPE to the mutual funds/investment institutions on 1st January

1992. The bid amounts had been credited earlier to the Government account on 23rd and 24th December 1991.

3.6 *Second tranche of disinvestment*

For the second tranche of disinvestment, (February 1992), the Government decided on the following:

(a) the bundles of shares of PSEs remaining unsold in the first tranche of disinvestment may be unbundled and fresh bundles of shares of 31 selected PSEs made with different proportion of shares of these PSEs.

(b) the fresh bundles of shares would be sold through the process of bidding to the mutual funds, financial institutions, investment institutions and banks in the public sector. The DPE would sell the bundles of shares for which the bids were equal to or above the price calculated according to the CCI guidelines.

(c) The DPE may sell shares in some selected PSEs beyond the 20 per cent limit but in no case would this involve loss of Government control.

On 16th January 1992, the DPE orally requested the Delhi Regional Office of the Industrial Credit and Investment Corporation of India Ltd. (ICICI) to evaluate and advise reasonable issue price for equity of selected PSEs. The ICICI submitted its recommendations on 29th January 1992 which *inter-alia* suggested non-inclusion of certain PSEs whose shares had been disinvested in the first phase. The prices suggested by the ICICI were higher than the earlier revised reserve prices in some cases. As a result of these recommendations a revised list of 16 PSEs for disinvestment was prepared by the DPE with the approval of Government. The valuation of the shares of these 16 enterprises was done with reference to the valuation done by the ICICI which was higher or equal to the revised reserve prices of the first phase of disinvestment.

The shares of the 16 PSEs were grouped in 120 bundles according to same categorisation as adopted earlier. Their reserve price were uniformly fixed at Rs. 10.08 crores per bundle, which was also indicated in the notice inviting tenders and the bids were invited from 36 institutions, banks, on 11th February 1992. The terms and conditions stipulated in the notice inviting the bids for second phase were generally the same as those prescribed in the first phase of disinvestment. 273 bids were received from 19 institutions for all the 120 bundles. Bids for all the 120 bundles were accepted for a total value of Rs. 1611 crores.

The shares of PSEs disinvested in the two phases taken together ranged from a minimum of 0.27 per cent to maximum of 20 per

cent (Annexure I) and the total amount realised was Rs. 3038 crores. The shares of one selected PSE namely Metal Scrap Trading Corporation remained unsold.

4. SCOPE OF AUDIT

The arrangements made by the Government for the sale of shares of selected PSEs were examined in audit to ascertain whether the preparation for sale had been adequate and satisfactory and whether the procedure for disinvestment was conducive to realizing the maximum receipts to the Exchequer. The records relating to disinvestment of Government shares in selected PSEs as supplied to Audit by the DPE and some of the concerned PSEs were examined in Audit and its findings based on these records are given in the succeeding paragraphs.

5. *Audit findings and conclusions*

5.1 Approach to disinvestment lacked necessary preparatory work.

Investors' enthusiasm for equity shares of a company is dependent to a large extent on the knowledge about its inherent financial strength, including *inter alia* profits earned and dividends paid in the past, growth in sales and assets, future plans of expansion, risks involved, the future of the industry including demand/supply imbalances, locational advantages and the competence of its management. Public issues of equity by private enterprises are invariably preceded by wide publicity about such aspects. The requirement of familiarising the investors both institutional and individual was more essential for PSEs due to their earlier lack of exposure to the stock markets.

While the Government had decided as early as in March, 91 to disinvest a part of its shares in PSEs, it was noticed in Audit that no efforts were made to generate investor enthusiasm through wide publicity about the PSEs. In fact the identification of the 31 PSEs was completed in November 1991. The Government had asked the financial institutions, like the Unit Trust of India (UTI) who were the prospective buyers, to do their own valuation of shares of PSEs for which purpose they were advised to obtain information from the PSE concerned. No efforts were made to generate wide spread investor enthusiasm among the FIs/MFs about the PSEs shares to encourage a good response from these institutions.

The Department of Public Enterprises (DPE) stated in March 1993 that since the shares were sold to MFs/FIs only

it was not considered avisable to incur expenditure on publicity and that MFs/FIs were given access to annual accounts, balance-sheet, etc. of the PSEs.

The fact remains that though the decision to disinvest had been taken quite some time back, the MFs/FIs were left with very little time to make a realistic valuation of shares after the issue of DPE circular of October 1991 advising the PSEs to give necessary information as and when asked for by the MF/FIs. This together with the lack of information on the seller's perception of the reserve price for the shares/ bundles led to the low offers as well as number of bids received as explained subsequently in para 5.5.

Suggestions had been received from some of the Ministries and Deptts. of the Govt. of India as well as PSEs for exclusion of some PSEs from the proposed disinvestment. The justification given by the Deptts/PSEs for their exclusion is indicated below.

	Name of PSE	Justification for exclusion
(i)	Indian Petrochemicals Ltd.(IPCL)	These PSEs were intending to raise funds directly from the market by issue of fresh equity shares which taken together with the proposed disinvestment would result in Government's share-holding falling below 51 per cent.
(ii)	Cochin Refineries Ltd (CRL)	
(iii)	Andrew Yule & Co. (AY)	
(iv)	National Aluminium Co. (NALCO)	The volatility of international price of aluminium and fluctuations in profitability were quite low at that time
(v)	Hindustan Zinc Ltd. (HZL)	Full scale commercial production was expected in an year or two with the commissioning of a new project costing Rs. 617 crores in October 1991 which would increase the share price of the enterprise in future.
(vi)	National Fertilizers Ltd. (NFL)	Profit of these enterprises in 1990-91 was low which was going to increase substantially in 1991-92 and as such disinvestment should be considered after the finalisation of accounts for 1991-92.
(vii)	Fertilizers and Chemicals (Travancore) Ltd. (FACT)	
(viii)	Steel Authority of India Ltd. (SAIL)	The valuation of shares under the three methods would not reflect the real values of the SAIL and Government would not get fair price till 1994-95. Decontrol of Steel distribution and pricing as well as modernisation of the plants was likely to improve profitability.

There was nothing on record to show that their suggestions were given due consideration. These PSEs were, however, included in the first round of disinvestment. Only in the second round were some of the companies

excluded on the advice of ICICI. The effect of this was that in the case of shares of IPCL and SAIL for example the realisation turned out to be much lower than the original reserve price fixed as explained in paras 5.15 and 5.16.

The DPE stated that the adminsitrative Ministries/Departments and PSEs concerned were neither sellers nor buyers and the Government had to take a view for PSEs as a whole and as a seller based on macro considerations. The reply of the DPE is not convincing. It does not explain why the advice of the concerned Ministries/PSEs tendered, adducing specific grounds, was not accepted. As stated earlier, the Government subsequently, in the second phase, accepted the advice of ICICI for the exclusion of many PSEs from disinvestment.

5.2 Formulation of guidelines for valuation-Inadequacies

A scrutiny of the DPE's files relating to the setting up of the Committee for formulating guidelines for valuation of shares of PSE's revealed the following:

(a) The Committee was to be assisted by Financial Advisers (FAS) of the Ministries as representative of the Department of Expenditure. The Chairman, however, decided not to associate the FAs on the ground that the Committee had very little time and the selection of PSEs had not been finally completed.

The DPE stated that to complete the work in time, it was necessary to do away with the unwieldy size of the Committee and to make maximum use of the available talents. It added that the absence of FAs of the Ministries in the Committee was not of much consequence as representatives from available fields including PSEs were included in the Committee. It was also stated that the disinvestment was not a normal activity for which rules were laid. The reply is not tenable as the Committee constituted by the Ministry of Finance had, as its member, a representative of the Department of Expenditure. However, because of a subsequent decision by the Chairman, the expertise of the Department of Expenditure could not be availed of.

(b) The final report was signed by only four out of 14 members of the Committee, including 5 coopted members. It may be inferred that the deliberations and recommendations of the Committee did not reflect fully the expertise available even within the Government. Some of their suggestions which could have had important bearing on the outcome of disinvestment are reproduced below:

(i) Shares should be offered not only to mutual funds and merchant banks but also to approved share brokers, public limited companies, approved pension funds, etc. for bringing more competition and better price and for preventing cartelisation. A limit should be fixed for purchase of shares by each financial institution for a wider dispersal of shares.

(ii) The book value of shares of PSEs being very low, the assets of PSEs should be revalued at current price or replacement value for calculating the NAV. If this was not possible due to time constraints, the weightage of NAV in computing fair value may be reduced from 50 per cent as per CCI norms to 25 per cent.

(iii) The rates of capitalisation for say the first ten among the best public sector units cannot be less than the average capitalisation rates obtaining in the first ten best private sector giltedged shares.

(iv) The disinvestment should be considered in stages with pre-determined time schedule.

(v) In view of the absence of market value it may be advisable to transfer the shares to selected mutual funds/public financial institutions at a reasonable value with a stipulation that as and when these shares are offered to the general public 90 per cent of the price gained would be transferred back to the Exchequer.

(vi) If the Government have to raise the intended amount before 31.3.1992, the short term solution would be to raise a loan from the financial institutions against the collateral of shares which would in due course be offered to all parties including the financial institutions and the loan(s) be repaid.

Consideration of the above suggestions made by the various members representing different wings of the Government would have enabled an appraisal of the several options before embarking on disinvestment.

5.3 Effect of bundling of shares on prices of Very Good/Good PSEs

The Government had decided to offer for sale the shares of the selected PSEs in bundles consisting of shares of 9 PSEs each, 3 'Very Good', 3 'Good' and 3 'Average'. It was stated that bundling was to facilitate disinvestment of shares of the average PSEs as the potential buyers would be compelled to buy them alongwith the Very Good and Good shares.

The method of offering shares in bundles made it difficult for the Government to assess how each share had been evaluated by the bidders. This was evident from the wide variation in the prices of shares of PSEs furnished later by the financial institutions/mutual funds, after acceptance of bids. But for bundling, it would have been possible to reject the offers for individual share of PSEs which were below the reserve prices fixed by the Governemnt. Thus, while it is not clear whether the bundling exercise would facilitate sale of the average PSEs shares, it would result in depressing the value realisation of the shares of Very Good/Good PSEs. Details of eight cases noticed in Audit where the average realisations were

less than even the revised reserve prices is given below. In four cases the average realisation was even below the face value of the share of Rs. 10/-.

Sl. No.	Name of the PSE	Revised reserve price December 1991	Average price per share realised	Loss per share Rs.	No.of shares sold (in Lakhs)	Total Loss Rs. Lakhs
1.	IRCON	303	225	78	0.13	10.14
2.	HMT	21	189.11	2.89	42.68	123.34
3.	HCL	29	25.17	3.83	16.69	63.92
4.	RCFL	13	9.87	3.13	311.36	974.56
5.	NFL	10	8.46	1.54	111.63	171.91
6.	HPF	10	8.00	2.00	191.90	383.80
7.	CMC	10	8.00	2.00	25.28	50.56
8.	DCI	36	10.00	26.00	4.02	104.52
	Total					1882.75

The invitation of bids for each PSE shares separately would have also resulted in higher value realisation for the Very Good and Good companies.

As mentioned in Para 3.3 of the report, it was decided by the Government that in the case of PSEs already listed on the Stock Exchanges, their shares would be off loaded directly to mutual funds/ financial institutions at the market price. Shares of Cochin Refineries and Andrew Yule which were already listed in the stock market were, therefore, not to be included for sale in the bundles. The inclusion of shares of these two PSEs in bundles was, therefore, contrary to the approval of the Government.

The DPE stated that sale of PSEs shares in bundles was considered as best method of realising best prices in respect of all PSEs and it was not possible to say whether individual shares had been underpriced in this method of sale. The reply of the DPE is not convincing. The sale of shares in bundles definitely had the effect of depressing the value realisation of shares of very good/good PSEs. In fact, during the disinvestment made in 1992-93, the Government took a decision of off-loading the shares of individual PSEs and not in bundles.

The DPE also contended that inclusion of shares of Cochin Refineries and Andrew Yule in different bundles was not contrary to any Government approval and was tactically sound. This cannot be accepted as the Government had taken a decision to off-load shares of these two PSEs which were listed in the stock exchange and whose market prices were known.

5.4 Classification of PSEs-Basis inadequate

From a scrutiny of the files of DPE it emerged that the classification of PSEs as 'Very good', 'Good' and 'Average' for the purpose of bundling of shares had apparently been done on the basis of NAV. This could not be considered as sufficient as the other financial criteria and macro economic parameters would substantially determine the market sentiment for each share. Reserve prices determined by the DPE and the valuation done by the consultants appointed by the Government were higher than the NAV of the PSEs used for the purpose of classification by the Government.

Taking into account the valuation done by the DPE and the Consultants, classification made by the Govenment would have undergone a change. The table below indicates the classification as done by the Government, the consultant's valuation and the reserve price fixed by the DPE.

Sl No.	Name of PSE	Classification by the Government as per NAV	Valuation as per consultants report (Average of High & Low) (Rs.)	Reserve price fixed by DPE (Rs.)
1.	Madras Refineries Ltd.	Good	65.25	65.00
2.	MTN Ltd.	Average	73.88	57.00
3.	HMT Ltd	Good	56.62	46.00
4.	Bongaigon Refineries & Petrochemicals Ltd.	Average	59.64	55.00
5.	Hindustan Zinc Ltd.	Average	88.76	85.00

From the above table it is clear that classification of PSEs for the purpose of bundling of shares had not been done taking all factors into account. PSEs listed at Sr. Nos. 2,4 and 5 could have been classified as 'Good' as the valuation done by the DPE and the Consultants in these cases was higher than the valuation done in respect of HMT Ltd. at Sr. No.3

Further, a substantial number of PSEs whose shares were disinvested operated in fields such as telecom, oil, communications, etc. enjoying virtual monopoly and cash cow status. There was, therefore, adequate justification for believing that these PSEs would continue to maintain their position and become more profitable in the future. Infact the lowest reserve price fixed by the Government was Rs. 35 for SAIL and there were only two other PSEs whose reserve prices were determined less than Rs. 50/- As against this 23 to the 30 PSEs had NAV less than Rs. 50 and they were, therefore, not categorised as 'very good'. Classification of PSEs on the basis of reserve prices rather than NAV would have enabled bundling of shares in a more rational manner.

The DPE stated that shares floated in the primary markets were judged/ gauged by NAV which was also followed by the Government for

classification of PSEs. The Audit view was also stated to be not supported by an expert study or commercial practice. The fact remains that NAV alone is not the indicator of the classification of a PSE. There are other factors also which could have been kept in view for deciding the classification on rational basis.

5.5 *Constitution of bundles and inviting of bids without valuing the shares*

Government approved in November 1991 the offering of bundles of shares of 9 PSEs consisting of 3 very good, 3 good and 3 average, value of each bundle being kept around Rs. 5 crores. The approval of Government also envisaged fixation of reserve price by taking the two highest values under the NAV, PECV and DCF methods.

The bids for all the 825 bundles were invited on 10th December 1991. Reserve prices of the shares of the selected PSEs were determined between 14th to 18th December, 1991. Apparently, therefore, the bundles had not been valued before inviting bids and consequently the reserve price of bundle could not be indicated in the notice inviting the bids. As the approval of Government was for keeping the value of each bundle around Rs. 5 crores, it was essential to fix the reserve price of shares to determine the value of each bundle before inviting bids.

Valuation done by Audit as a test check of bundle Nos. 74, 90, 262, 277, 364, 385, 404, 460, 550, 580, 610, 674, 756, 788, 807 and 821 on the basis of reserve prices of shares of selected PSEs revealed that the value of these bundles ranged between Rs. 8.61 crores to Rs. 12.91 crores. Invitation of bids before fixation of reserve prices of shares, resulted in not keeping the value of each bundle around Rs. 5 crores. There was also appreciable variation in the value of bundles, which was not in accordance with the approval of the Government.

The DPE had reported on 12th December 1991 that the financial institutions/mutual funds had been under the impression that each bundle of shares offered for sale would be around Rs. 5 crores. It is not clear to audit as to how the financial institutions/mutual funds gathered the impression that the value of each bundle was around Rs. 5 crores when the valuation of shares had not been made by the time the tenders were invited. The financial institutions/mutual funds quoted lower rates and the average realisation per bundle worked out to Rs. 3.51 crores.

The DPE stated that in the very first operation of its kind which had clear objective of raising resources, both underpricing and overpricing were obvious risks and it was for this reason that consultants' valuation and assessment of share prices by PSEs were not accepted. It was added that the value of internalised valuation of bundles without a buyer's perception, matching would not be material. The arguments adduced are not convincing. The risks involved could have been minimised by a critical assessment of the best value of shares of individual PSEs by adequate preparatory company wise/industry-wise study. The relevant factors indicated in

consultants' report and the views of the PSEs could have been properly used to create favourable buyer's perception for realising the best value.

5.6 *Offer of shares for sale in excess of the perceived investible resources with the institutions*

On the basis of reserve price of shares determined by the Government between 14th—18th December 1991, the average value of each bundle as worked out in Audit was about Rs. 9.75 crores. The total value of 825 bundles was, therefore, around Rs. 8,000 crores. From a note dated 18th December 1991 submitted by DPE before opening of the bids on that day, it was seen that the DPE had anticipated that all the institutions from whom bids were invited would be able to purchase shares of the value of around Rs. 2000-2500 crores against DPE's estimated value of over Rs. 6000 crores.

When the financial limits of the financial institutions/mutual funds were generally known to the Government, offering shares in excess of the purchasing capacity of such institutions appears to be a financially imprudent decision. The apprehension regarding inadequate purchasing/ bidding power was confirmed on opening of bids as only 710 bids for 533 bundles for a total value of Rs. 2300.84 crores were received and the value of each bundle quoted was far below Rs. 5 crores. This shows that planning in the disinvestment process was inadequate and incomplete.

The DPE stated that to sell a new commodity in the market for the first time it was considered prudent to make wider offer to sell lesser quantity. This argument is not convincing as with inadequate purchasing/bidding power of the buyers, offering of shares much in excess only led to uncompetitive bidding.

5.7 *Non-competitive tenders in the first phase of disinvestment in December 1991*

The Government invited tenders for the sale of 825 bundles of shares of 31 PSEs from 10 institutions on 10th December 1991 which were opened on 18th December 1991. 710 bids were received from 9 institutions for 533 bundles as under:

		No. of bundles	No. of bids	Percentage to total bundles
(i)	No. of bundles for which one bid was received	387	387	72.61
(ii)	No. of bundles for which two bids were received	122	244	22.89
(iii)	No. of bundles for which three bids were received	19	57	3.56
(iv)	No. of bundles for which four bids were received	3	12	0.56
(v)	No. of bundles for which five bids were received	2	10	0.38
		533	710	

72.61 *per cent* of the bundles had only one bidder. In 4.50 *per cent* cases only 3 or more bids were received. This clearly showed non competitiveness of the bids received.

Out of a total number of 710 bids for 533 bundles, one of the institutions submitted 389 bids valuing Rs. 1267.42 crores which accounted for 55 *per cent* of the total bids received. Another financial institution offered 152 bids valuing Rs. 449.34 crores which represented 21 *per cent* of the total bids received. The remaining 7 institutions/mutual funds together contributed only 24 *per cent* of the total bids valuing Rs. 584.08 crores. This indicated unequal bidding power of the institutions/mutual funds and the obvious corollary was that a couple of institutions had virtually dictated the prices.

After evaluating the above bundles with reference to the revised reserve prices fixed for PSE shares as outlined in Para 3.5, bids could be accepted only for 406 bundles of which 289 bundles were single bids representing 71 *per cent* of the total bundles sold. The position regarding allocation of these accepted bundles was as under:

Sl. No.	Name of the institution/ mutual fund	No. of bundles allotted	Amount accepted
			(Rs. Crores)
1.	Unit Trust of India	225	775.76
2.	Canara Bank Mutual Fund	25	131.22
3.	General Insurance Corpn.	66	211.96
4.	Life Insurance Corpn.	59	184.31
5.	Life Insurance Corpo. Mutual Fund	9	27.37
6.	Punjab National Bank Mutual Fund	1	3.60
7.	State Bank of India Capital Market	21	93.19
		406	1427.41

The DPE stated that when the bidders were uneven in terms of financial strength, bids naturally would not be even.

5.8 *Extent of variation in prices of PSE shares in bundles sold with reference to original reserve prices*

A scrutiny of the records of DPE revealed that there was no comparative statement on record indicating the amount of bids received with those worked out with reference to the original prices fixed for each PSE share.

A test check conducted by Audit in this regard revealed the position as under:

Value in rupees Lakhs

Bundle No.	Value of shares in the bundle on the basis of Reserve Price originally fixed by the Government for shares of each PSE	Bid price of the bundle accepted by the Government	Variation
74	868.17	317.00	551.17
90	894.59	303.76	590.83
262	860.62	330.00	530.62
277	860.62	330.00	530.62
364	898.33	306.81	591.52
385	898.33	306.81	591.52
404	898.33	306.81	591.52
460	909.78	317.14	592.64
550	965.27	367.00	598.27
580	939.60	351.00	588.60
610	976.48	477.00	499.48
674	979.04	355.00	624.04
756	963.71	497.00	466.71
788	1286.14	338.05	948.09
807	1110.66	308.71	801.95
821	1291.23	327.77	963.46
Total	15600.90	5539.86	10061.04

The above study revealed that the Government accepted bids substantially lower (i.e 64 *per cent*) than the original reserve prices resulting in potential gains to the financial institutions/mutual funds at the cost of the Exchequer. The Department did not, however, bring out the above position in full details while seeking the approval of the Government for reducing reserve prices.

The DPE stated that different methodologies including futuristic projection of DCF method resulting in higher reserve prices were specifically discussed and the pricing method finally accepted by Government was pragmatic. The reply does not clarify why the effect of lowering of the reserve prices to the extent of around 64 *per cent* of the original reserve prices was not specifically brought to the notice of the Government at the time of seeking approval to the revision of the original reserve prices of the shares of the PSEs for acceptance of the tender bids of the MFs/FIs.

5.9 *Unjustified reduction in the reserve prices of PSE shares made after the opening of tenders.*

The original 'reserve' prices for the sale of selected PSE shares were determined by the DPE in consultation with the PSE concerned, Ministry of Finance, Administrative Ministry of the PSE between 14th to 18th December 1991, on the basis of the data furnished by PSEs for the three methods of NAV, PECV, DCF as well as the valuation done by the consultants appointed by the Government.

On opening the tenders on the 18th December 1991, it was found by the DPE that no tender could be accepted if the bid for each bundle of shares was valued with reference to the reserve prices fixed. The Department attributed the shortfall in the bid prices vis-a-vis the reserve prices to the fact that the FIs and MFs did not share the PSEs optimistic expectations about future cash flows. The DCF method was, therefore, given up by the Government and the shares of PSEs were evaluated only owith reference to the CCI formula, the PECV being calculated at a uniform capitalisation rate of 10 *per cent* which implied prices being determined at 10 times the Earning Per Share. Further, reduction of 10 *per cent,* if necessary, in the reserve price of the bundle arrived at with reference to reserve price of PSEs shares so fixed, was also stipulated. This revised criteria of valuation of shares resulted in reduction of the reserve prices ranging from 21.95 *per cent* to 86.67 *per cent.* In 24 of the 31 cases the reduction in valuation was above 50 *per cent.* The details are given in Annexure II.

Such substantial reduction in reserve prices was not justified for the following reasons:—

(i) The valuation committee and the government had earlier rejected the CCI formula as being too conservative and inapplicable for valuation of PSE shares. The CCI formula povides for suitable adjustment in the capitalisation rate on the basis of the stock market price of share. Under the CCI regime premium was allowed only to existing listed companies. Since the PSEs were not listed on the stock exchanges, the adoption of the CCI formula would have required their share value worked out with appropriate adjustment of the capitalisation rate having regard to the reserves, profitability and market presence. In the earlier valuation exercise the PECV had been arrived at by adopting the appropriate Industry Capitalisation Rate for each PSE. Whereas these ranged from 4.65 to 7.78 *per cent* in a majority of the cases the Government finally adopted a uniform rate of 10 *per cent* for all PSEs which is not rational.

(ii) The reduction in the reserve prices to bring them in consonance with the market response was also not reasonable. The bids received were in fact highly non-competitive in nature. For 72.61 *per cent* bundles only single bids had been received. Only in 4.50 *per cent* bundles 3 or more bids were received. 55 *per cent* of the bids were tendered by only one institution namely the UTI. Such non-competitive response could not be

taken to reflect the market perception of the fair value of the PSEs shares. These aspects had not ben adequately considered by the Government while deciding to reduce the reserve prices.

(iii) While the earlier reserve prices had been determined by the DPE in consultation with the Administrative Ministries and the Chief Executives of the PSEs concerned, the subsequent proposal to the Government for revising the criteria in refixing reserve prices was done without consulting them.

Considering the factors detailed in the preceding para it would have been appropriate for the Government to attempt negotiations with the bidders who were Public Sector financial institutions/mutual funds by explaining/justifying the basis on which the original reserve prices had been fixed.

The DPE stated that it was not required to negotiate with the bidders as it would tantamount to retendering and that all factors were taken into account and the price was fixed as per principles finally approved by Government. The reply is not convincing. The original reference price was fixed by the Government based on the valuation of shares by consultant and also keeping in view the methods mentioned above. These methods of valuations could not, therefore, be discarded only on the ground that the MFs/FIs had quoted lower rates for bundle of shares within their available means of resources. Negotiation or retendering could have facilitated obtaining of reasonable prices for the shares.

5.10 *Fixation of Reserve Price for the second tranche of disinvestment of PSEs shares in bundles in February 1992.*

The second tranche of disinvestment of PSEs shares in bundles was undertaken in Fabruary 1992. Some PSEs were withdrawn from the second tranche on the advice of ICICI. Out of shares of 31 PSES offered in the first phase, unsold shares of only 16 PSEs were offered in fresh 120 bundles to all the Public Sector financial investment institutions, mutual funds and merchant banks. The reserve price of Rs. 10.08 crores of each bundle for the second phase was based on the valuation of shares of each of the 16 PSEs done by Industrial Credit and Investment Corporation of India (ICICI). The reserve price of Rs. 10.08 crores of each bundle was made known to all the bidding parties in the notice inviting bids.

A scrutiny of the 'advice' of ICICI revealed that their recommendations had not taken into account the following parameters.

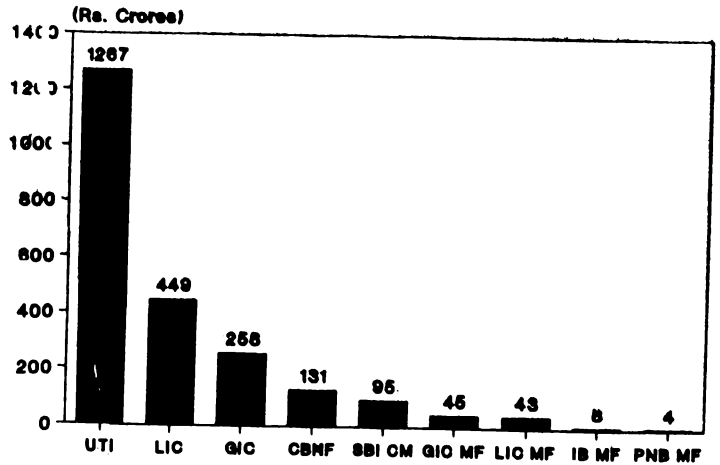
(i) Profitability projections made by the PSEs.

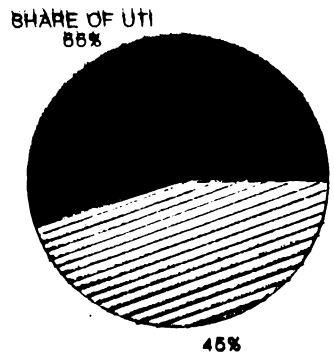
(ii) Major changes contemplated by the PSEs in the future plans.

(iii) Any future major restructuring of the PSEs.

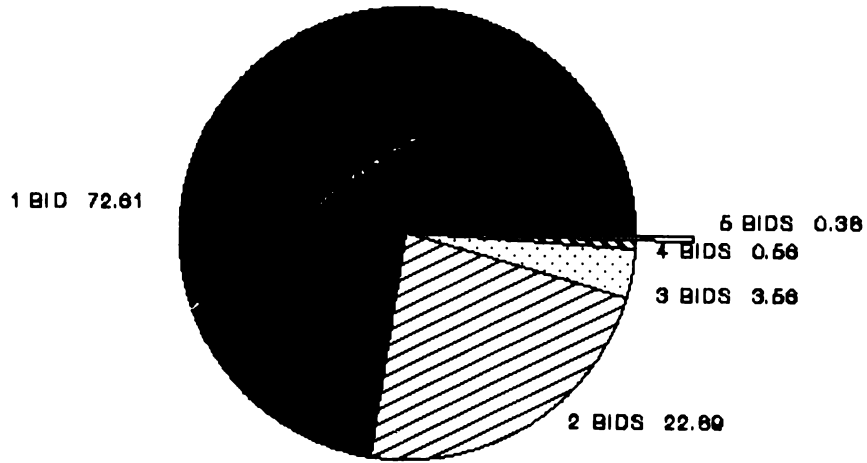
(iv) Impact of decontrol of steel on the profitability of SAIL.

INSTITUTION WISE VALUE OF BIDS RECD.
(First Phase)



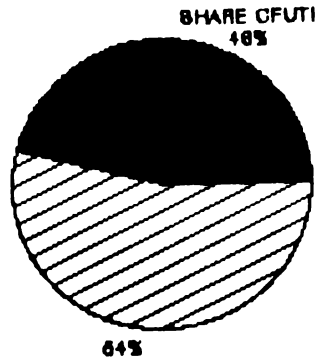


CATEGORISATION OF BUNDLES FOR WHICH BIDS RECEIVED (First Phase)



TOTAL BUNDLES FOR WHICH BIDS RECD.-533

FUND WISE VALUE OF BIDS RECD.
(Second Phase)



The reserve prices thus recommended were not based on relevant factores and were such lower than the reserve prices of shares of PSEs originally fixed.

The unjustified reduction in the reserve prices in response to lower bids received in two tranches of sale resulted in under-realisation of receipts aggregating Rs. 3441.71 crores to Government as detailed in Annexure IV.

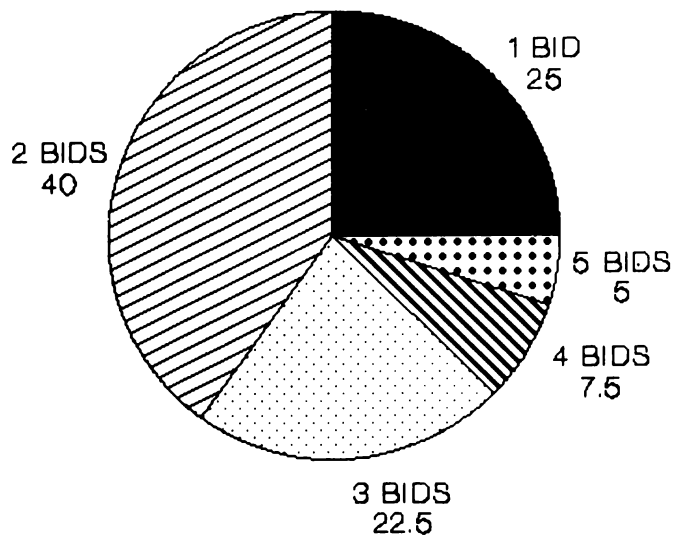
The DPE stated the ICICI, who were one of the expert agencies in the field in the country recommended reserve prices after taking into consideration all those factors provided by the PSEs and the DPE. It was further stated that subsequent to disinvestment of PSE shares, these did not show any remarkable recovery except some sporadic higher quoting in very limited off loading. In fact most of the scrips were not being traded regularly and based on hypothetical calculations, even notional losses to Government could not be taken as logical.

As already stated in the para above, the ICICI had not taken a number of relevant factors for the valuation of shares of PSEs. Their valuation was much lower than the reserve prices originally fixed. It may also be stated that as per Annexure III of this Report, the market price of some of the PSEs as on 30th October 1992 were much higher than the prices recommended by ICICI. The extent of benefit availed of by the FIs/MFs of the high prices prevailing at this time by selling the shares of 10 PSEs, held by them is not ascertainable. In a test check of 19 PSEs listed on the stock exchanges it was seen that in March (2nd, 6th) and April (7th) 1993, the prices quoted for their shares were much higher than the average prices realised in the two tranches of disinvestment.

5.11 *Uncompetitive biddings of PSEs shares in the second tranche of disinvestment in February 1992*

In the second tranche of disinvestment, bids for 120 bundles of PSEs shares were invited on 11th February 1992 which were opened on 24th

CATEGORISATION OF BUNDLES BY NO. OF BIDS
(Second Phase)



February 1992. 273 bids were received from 19 institutions/mutual funds/ merchant banks for all the 120 bundles.

Analysis of the bids received from different parties indicated the position as under:—

	Bundles	No. of bundles	No. of binds	Percentage to total bundles
	1	2	3	4
(i)	No. of bundles for which only one bids was received	30	30	25
(ii)	No. of bundles for which only two bids were received	48	96	40
(iii)	No. of bundles for which only 3 bids was received	27	81	22.5
(iv)	No. of bundles for which only 4 bids were received	9	36	7.5
(v)	No. of bundles for which only 5 bids were received	6	30	5

It would be seen from the above that only in 35 *per cent* cases three bids or more had been received which showed lack of competition even in the second tranche of disinvestment despite the fact that the number of bidders had been increased by including merchant banks.

Out of the 273 bids received, 120 bids were received from a single financial institution amounting to Rs. 1580.75 crores. The other three bidders contributed 66 bids valued at Rs. 768.65 crores. Thus these four bidders contributed 68 *per cent* of the total bids and this represented 69 *per cent* of the total value of the bids amounting to Rs. 3416.50 crores. The contribution of the remaining 15 bidders taken together was, therefore, insignificant. This clearly showed that in the second phase also there was lack of competition.

The DPE stated that when the bidders were uneven in terms of financial strength, the bids made by them were bound to have high variations. It may, however, be stated that in the second phase of disinvestment though the scope of inviting tenders from parties was enlarged but the number of shares included in each bundle was so large that the reserve price of each bundle was fixed at Rs. 10.08 crores which was very high. Further, though the number of PSEs was reduced in the second phase from 31 to 16, the

shares offered for sale was high and could not be expected to generate better competition keeping in view the limited investible resources of the bidders.

5.12 *Market price of of disinvested shares*

A scrutiny of the market prices as prevalent at the end of October 1992 of 10 PSEs shares since listed as given in Annexure-III, revealed that the potential gain to the financial institutions/mutual funds/banks ranged between 126.62 *per cent* to 615.53 *per cent* over the average price at which these shares were sold in the two phases of disinvestment during 1991-92. The response of the stock market to the PSEs shares also revealed that the reserve prices for PSEs shares fixed by taking an average of NAV + PECV at 10 *per cent* capitalisation or at ICICI valuation rate, was grossly under estimated. In fact in 6 out of the 10 PSEs listed in the stock exchanges so far, the reserve prices originally fixed under NAV, PECV, DCF and Consultant's method were also lower than the ruling market price.

To save the Government from substantial under-realisation from such sales, it was necessary that a 'claw-back' provision should have been incorporated in the terms and conditions for the sale of shares to the effect that as and when these shares were subsequently sold by the financial institutions/mutual funds to the general public, a reasonable fixed percentage of the gain on these sales would be transferred back to the Exchequer. Since the government had no past experience and was disinvesting its shares in PSEs for the first time and most of them were not listed, it was all the more necessary to include such a special clause.

The Chief Advisor (cost), Ministry of Finance as well as the Chief Executive of BPCL had in fact suggested, in August 1991, stipulation of a clause that as and when these shares are offered to the general public, 90 *per cent* of the difference of the price gained by the Financial institutions/ mutual funds should be transferred back to the Central Government.

The DPE stated that stipulation of claw-back provision was not practicable and FIs/MFs might have desired inclusion of a similar provision for Government meeting their losses or reduced profits in the subsequent sales of shares by them. The incorporation of a claw-back provision has to be viewed in the context that the disinvestment exercise was undertaken for the first time. A claw-back provision was an assurance that in the event of windfall profits obtained by the FIs/MFs on off-loading these shares in the market within a short given period, a part of profits would flow back to the Government. Inclusion of a suitable claw-back provision was also suggested by the Chief Adviser (Cost). Non inclusion of a claw-back provision cannot be considered to be in the best interest of the tax payer.

5.13 *Irregular forward trading of shares of PSEs after disinvestment*

While approving the first round of disinvestment the Government had also decided that the shares of the selected PSEs would be listed on the stock exchanges to enable the financial institutions/mutual funds to off-load them to the general public at the appropriate time. The terms and conditions on which bids were invited from the financial institutions, mutual funds and merchant banks for sale of shares of selected PSEs also specified that the purchasers would be free to off-load their share-holding in these PSEs through the normal stock exchanges transactions. Securities and Exchange Board of India (SEBI) had intimated to all the stock exchanges in the country that the shares of PSEs should be listed by the stock exchanges and traded only after disclosure documents were submitted and approved by the SEBI and stock exchanges.

It was brought to the notice of the Government that some banks and financial institutions which had purchased shares of PSEs had subsequently sold them in transactions outside the stock exchanges violating the terms and conditions of the sale. The Ministry of Finance sought comments on such forward trading of PSFs shares from the DPE. The DPE, however, held the view that the purchasers were not debarred from effecting any forward sale of shares of PSEs before their actual listing on the stock exchanges as the sale of shares from the Government to the institutional buyers in the public sector was a purely commercial deal.

As already stated above the purchasers were free to off-load their share holding in these PSEs only through the normal stock exchange transactions. The view held by the DPE that the purchasers were not debarred to sell shares before actual listing on the stock was thus contrary to the decisions taken at the outset by the Government and terms and conditions prescribed for sale of shares as well as the instructions issued by the SEBI to all stock exchanges in April 1992.

The DPE stated that for any violation of stock exchange regulations the empowered organs like SEBI etc. were to take necessary action and not the DPE.

5.14 *Non achievement of objectives of disinvestment*

The objectives behind partial disinvestment of its shares in the selected public sector enterprises, as stated in the statement of Industrial Policy and the Budget speech for 1991-92 of July 1991, were to raise non inflationary resources, encourage wider public participation and promote greater accountability of these enterprises.

The Budget Estimates for 1991-92 provided capital receipt of Rs. 38174 crores including Rs. 2500 crores to be realised from disinvestment of PSE shares and capital expenditure at Rs. 32039 crores. The estimated surplus on the capital account was, therefore, Rs. 6135 crores. As against this the estimated deficit on the revenue account was Rs. 13854 crores. Instead of

containing the revenue expenditure and utilising the capital receipts for enhancing availability of resource of PSEs or for any other productive purposes, Rs. 3038 crores realised from the sale of PSEs shares during 1991-92 was in effect intended to reduce the revenue deficit of the budget. Thus, capital assets were disposed of to meet partially revenue expenditure and the levels of revenue expenditure not having been reduced, the objective of raising non inflationary resources by means of sale of shares of PSEs for enhancing the availability of resources of PSEs was not realised.

The sale of PSEs shares only to limited number of financial institutions/ mutual funds/merchant banks excluding the workers/employees of the PSEs and the general public could also not be considered as wider public participation. The disinvestment served only to contain the fiscal deficit.

5.15 *Analysis of selected cases: SAIL*

Audit conducted a detailed analysis of a few cases to determine the factors responsible for low value realisations.

Steel Authority of India Ltd. (SAIL) was formed in January 1973 as a holding company for the steel and associated input industry. As on 31st March 1991 the share capital of SAIL was Rs. 3985.89 crores owned fully by the Government of India.

SAIL was selected as one of the PSEs for disinvestment of Government's equity holding during 1991-92. At the time of finalization of the PSEs whose shares were to be disinvested the Ministry of Steel suggested the exclusion of SAIL for the following reasons.

(i) The response to offer of SAIL's shares and market perceptions would improve after 2-3 years as a result of decontrol of Iron and Steel prices and completion of the on-going modernisation of projects which would enhance the profitability of the company.

(ii) The Government of India would stand to lose in the then prevalent state of affairs of the Company as none of three methods suggested for valuation of shares would reflect the real worth of shares of the company.

(iii) SAIL had already drawn-up plans for disinvestment of equity in 1994-95 when the accruals were expected to go up.

After considering the above points the Government decided in November 1991 that only 5 *per cent* of the shares of the company would be disinvested as against the original proposal of 20 *per cent.*

In the two phases of disinvestment carried out in December 1991 and February 1992, a total of 1990.75 lakhs shares of face value of Rs. 10/- were sold to the financial institutions/mutual funds/merchant banks at an average price of Rs. 13.24 per share.

A detailed study of the disinvestment of shares of SAIL revealed the following:

(i) Although the total disinvestment was only 5 *per cent* it actually represented around 23 *per cent* of the total number of shares of all the 30 PSEs sold during 1991-92. This was due to the higher paid up capital of the company at Rs. 3985.89 crores. In the light of the suggestion of the Ministry of Steel, even 5 *per cent* disinvestment of the shares of this company proved to be on the very high side.

(ii) While recommending valuation of share of SAIL at Rs. 10-12 for the second tranche of disinvestment, the ICICI had observed (January 1992) that reassessment of value of SAIL's shares was possible after scrutiny of the impact of steel decontrol which was likely to facilitate a higher issue price. Decontrol of steel prices had already been announced on 16th January 1992 before the recommendations of ICICI were received. Despite the recommendations of ICICI and the decontrol of steel prices before the second tranche of disinvestment, the Government did not raise the 'reserve price' of shares of SAIL above Rs. 12/- This happened despite the tremendous stock market enthusiasm in respect of the share price of a comparable private sector steel plant viz. TISCO's share price which jumped by almost Rs. (20 *per cent*) immediately after decontrol.

(iii) The proposal for disinvestment in the second tranche did not also indicate that in view of the announcement of decontrol of steel prices it would be advisable to disinvest the shares of SAIL only after impact of decontrol on the valuation of the shares was fully analysed.

(iv) Out of the total number of 1990.75 lakhs shares of SAIL sold in the two phases of disinvestment made in December 1991 and February 1992, 909.66 lakhs shares were sold in the first phase. From the information received in the middle of January 1992 by the government from the financial institutions/mutual funds who purchased the shares of SAIL, the Government was aware that in the majority of the cases the shares of SAIL were purchased by them at the face value of Rs. 10/- per share. This was a clear indication that further disinvestment of SAIL shares was inadvisable. The Government did not, however, consider all these factors and disinvested further shares of 1081.09 lakhs of this company in the second phase in February 1992.

(v) In the background of the enthusiasm created by the decontrol of Steel prices in respect of the Steel Industry and the general boom in the stock market, SAIL was listed at the DSE in April 1992 at a price of Rs. 200, reaching a high of Rs. 240. Thus, it was clear

that the Government had failed to assess the positive impact of decontrol of steel pricing and distribution.

The DPE stated that since the shares were sold in bundles, it was not possible to work out average realisation per scrip. Therefore, to compare the disclosure statement's average share price of any PSE like SAIL included in the bundle with reserve price was not relevant and was misleading.

It may be stated that though disinvestment of the shares was effected through bundling of shares of PSEs, the consideration paid for the shares of individual PSEs was crucial for effecting their transfer, listing, etc. The comparision of the average share price given in the disclosure statements with the reserve price is, therefore, not only relevant but is essential for computing the under-realisation.

5.16 *Analysis of selected cases Indian Petro Chemicals Corporation Limited (IPCL)*

IPCL started its operations in 1973 at Baroda (Gujarat). Today it has one more petro-chemical complex at Nagothane (Maharashtra). A complex is planned at Gandhar (Gujarat).

IPCL has an investment plan for over Rs. 4600 crores during 1990-95 which includes the proposed Gandhar project with a capital investment of Rs. 3485 crores. One of the conditions of the setting up of this project is that IPCL will have to raise resources without recourse to budgetary support. The equity capital of the company at Rs. 186 crores had not been raised after 1977 despite the fact that new assests amounting to Rs. 2050 crores had been created. If the fresh investment of Rs. 4619 crores from 1990-95 were also to be implemented through borrowings it would result in high debt equity ratio which could create debt servicing problem in the long run.

In the light of the above position, the IPCL requested the DPE in August, 1991 that instead of the Government diluting its equity holdings by selling the shares to mutual funds and institutions etc. It might be permitted to issue fresh equity shares to the public to the extent which could dilute Goverrment holding in the overall equity capital of the company to 50 *per cent* over a period say by 1995. Permission was also sought to increase the authorised capital of the company to Rs. 400 crores. The company also pointed out that they had the experience of raising funds from public through bonds and debentures and they had been advised by experts that their shares market value would be significantly higher than its book value. Despite these observations the DPE went ahead and disinvested 20 *per cent* of equity representing 372 lakh shares of face value Rs. 10 amounting to Rs. 37.20 crores in the two disinvestments carried out in December 1991 and February 1992 at an average price of Rs. 65.24 per share.

For the sale of its shares in IPCL in the first phase of disinvestment in

December 1991 the Government originally fixed a reserve price of Rs. 175/- per share which was reduced to Rs. 37/- after the tenders were opened. For the second phase of disinvestment the reserve price was, however, refixed at Rs. 60/- on the basis of the valuation done by ICICI.

A study of the consideration paid by various institutions indicated that the price per share ranged from Rs. 35 to Rs. 140.60. In the second phase of disinvestment the price per share paid by three parties was less than the reserve price of Rs. 60/- which resulted in the under-realisation of Rs. 232.77 lakhs to the Government.

Sl. No.	Name of the institution	No. of shares sold	Revised Reserve price per share 2nd Phase Rs.	Price at which shares were sold Rs.	Loss per share	Total loss (Rs. lakhs)
1	2	3	4	5	6	7
1.	Indian Bank Mutual Fund	336700	60	48.96	11.04	37.17
2.	Allahabad Bank	335000	60	52.00	8.00	26.80
3.	Corporation Bank	675200	60	35.00	25.00	168.80
	Total					232.77

Subsequently IPCL raised Rs. 320 crores from the public by sale of fresh equity shares of Rs. 10/- each for cash at a premium of Rs. 150/- per share.

The public issue of IPCL opened on 16th November, 1992 and despite the stock market being bearish it was fully subscribed closing on the earliest closing date viz. 19th November 1992. The public issue was preceded by prolonged publicity in News Papers, Magazines, Television etc. about the strength of the company as well as its future plans. The offer was made directly to the public without fixing any minimum limits. Not only has the IPCL succeeded in raising resources for financing its future plans but also widened its equity holding. The public issue of IPCL of November 1992 at a price almost 3 times realised in the earlier dis-investment has highlighted the following major short-comings of the latter.

(a) Dis-investment was not preceded by adequate public exposure of the PSEs.

(b) The offer for sale was restricted to MFs/FIs, the minimum size of bundles being Rs. 3 to Rs. 3.5 crores in the first tranche and Rs. 10.08 crores in the second.

(c) The concerned PSEs were not associated with the dis-investment exercise thereby foregoing the benefit of their expertise and the confidence in their respective organisations in determining realistic reserve price.

6. *Summing up*

— **The disinvestment exercise was not preceded by adequate preparatory study. No efforts were made to generate enthusiasm among financial institutions/mutual funds about PSE shares to encourage good response (Paragraph 5.1)**

— **Some PSEs like SAIL, IPCL were included against the advice of these PSEs/Administrative Ministries resulting in under realisation of share value in respect of shares disinvested in the PSEs (Paragraphs 5.1, 5.15 and 5.16)**

— **The method of sale of shares of PSEs in bundles had the effect of depressing the value realisation of 'Very Good/Good' PSEs shares as a result of clubbing together with 'Average' PSEs. The disinvestment of shares of Cochin Refineries and Andrew Yule which were listed on the stock exchange to financial institutions/mutual funds in the first tranche was contrary to Government decision (Paragraph 5.3).**

— **Making bundles before fixation of reserve prices of shares of PSEs resulted in failure to contain the value of each bundle to around Rs. 5 crores as approved by the Government. There was also appreciable variation in the value of bundles ranging between Rs. 8.61 crores to Rs. 12.91 crores. By quoting rates of bundles below RS. 5 crores the financial institutions/mutual funds made adventitious gains at the cost of the Exchequer (Paragraph 5.5).**

— **Despite being aware that the financial institutions/mutual funds would be able to purchase shares only arond Rs. 2000—2500 crores in the first phase of disinvesment in December 1991, the Government offered shares whose value on the basis of reserve prices was around Rs. 8000 crores, *i.e.* far in excess of the perceived investible resources with the institutions/mutual funds (Paragraph 5.6).**

— **Tenders received in the first phase of disinvestment were non-competitive. 72.61 per cent of the bids received had only one bidder. Out of 406 bundles sold, 289 bundles were single bids representing 71 per cent of the total bundles sold (Paragraph 5.7).**

— **In 16 bundles test checked at random in Audit the extent of variation in prices of PSEs shares in bundles accepted with reference to the original prices fixed in the first phase of disinvestment in December 1991 amounted to Rs. 10061.04 lakhs (Paragraph 5.8).**

— **Reserve prices were reduced ranging between 21.95 per cent to 86.67 per cent. In 24 out of 31 cases reduction in valuation was above 50**

per cent. The reduction in original reserve price resulted in under-realisation of share value to the extent of Rs. 3442 crores (Paragraphs 5.9 and 5.10).

— **In the second phase of disinvestment also the tenders received were uncompetitive Thre was also unequal bidding power. Four out of 19 bidders contributed 68 per cent of total bids received (Paragraph 5.11).**

— **Non-incorporation of claw back provision in the terms and conditions of the sale resulted in Government not being able to realise a part of the huge profits made likely to be made by the buyers in after sale of shares of the PSEs (Paragraph 5.12).**

— **The off-loading of shares after purchase by some institutions otherwise than through the normal stock exchanges was violative of Government policy and the terms and conditions of the sale (Paragraph 5.13).**

— **The disinvestment served only to contain the fiscal deficit (Paragraph** 5.14).

ANNEXURE-I

(Referred to in Paragraph 3.6)

List of Disinvested Public Sector Enterprises

S. No.	Name of PSEs	Percentage of disinvestment
1.	Hindustan Petroleum Corpn. Ltd. (HPCL)	20.00
2.	Indian Railway Constn. Co. Ltd. (IRCON)	0.27
3.	Minerals & Metals Trading Corpn. (MMTC)	0.67
4.	Bharat Petroleum Corpn. Ltd. (BPCL)	20.00
5.	Bharat Earthmovers Ltd. (BEML)	20.00
6.	Videsh Sanchar Nigam Ltd. (VSNL)	20.00
7.	State Trading Corpn. (STC)	7.98
8.	Bharat Heavy Electricals Ltd. (BHEL)	20.00
9.	Shipping Corpn. of India (SCI)	20.00
10.	Indian Petrochemicals Corpn. Ltd. (IPCL)	20.00
11.	HMT Ltd. (HMT)	5.43
12.	Dredging Corpn. of India Ltd. (DCI)	1.44
13.	Bharat Electronics (BEL)	20.00
14.	Cochin Refineries Ltd. (CRL)	10.01
15.	Indian Telephone Industries (ITI)	20.00
16.	Andrew Yule (AY)	13.57
17.	Hindustan Organic Chemicals Ltd. (HOCL)	20.00
18.	Hindustan Cables Ltd. (HCL)	3.64
19.	Madras Refineries Ltd. (MRL)	20.00
20.	Mahanagar Telephone Nigam Ltd. (MTNL)	20.00
21.	Rashtriya Chemicals & Fertilisers Ltd. (RCFL)	5.64
22.	Steel Authority of India Ltd. (SAIL)	5.00
23.	Neyveli Lignite Corpn. (NLC)	5.00
24.	National Aluminium Co. Ltd. (NALCO)	2.72
25.	Hindustan Zinc Ltd. (HZL)	20.00
26.	Bongaigaon Refineries & Petrochemicals Ltd. (BRPL)	20.00
27.	National Fertilizer Ltd. (NFL)	2.28
28.	Fertilizers & Chemicals (Travancore) Ltd. (FACT)	1.54
29.	Hindustan Photo Films Mfg. Co. Ltd. (HPF)	16.05
30.	CMC Ltd. (CMC)	16.69

(Source: Annexure IV of Annual Report of Deptt. of Public Enterprises for the year 1991-92)

ANNEXURE-II

(Referred to in Paragraph 5.9)

Statement of fixation of reserve prices for PSE shares in the first phase of disinvestment in December 1991.

(Face Value— Rs. 10)

Sl. No.	Name of Public Sector Enterprise	Price recommended by the consultant appointed by Government			Reserve price fixed by Government during 14th—18th December, 1991	Reserve Price re-fixed by Government as an average of NAV plus PCEV at 10 per cent	Reduction in percentage in the value of share in Column 5 with reference to Col. 4
		High	Low	Average			
1.	AY	92.14	82.72	87.43	82.00	39.00	52.44
2.	BEML	242.72	228.17	235.45	225.00	133.00	40.89
3.	BEL	104.22	58.66	81.44	80.00	29.00	63.75
4.	BHEL	56.10	47.82	51.96	66.00	37.00	43.94
5.	BPCL	351.50	333.32	342.41	350.00	181.00	48.29
6.	BRPL	68.18	51.09	59.64	55.00	18.00	67.27
7.	CMC	82.03	67.51	74.77	75.00	10.00	86.67
8.	DCI	148.70	115.65	132.18	132.00	36.00	72.73
9.	FACT	80.85	53.77	67.31	70.00	10.00	85.71
10.	HCL	39.29	30.24	34.77	70.00	29.00	58.57
11.	HOCL	147.08	115.22	131.15	132.00	46.00	65.15
12.	HPCL	238.88	222.10	230.49	305.00	191.00	37.38
13.	HPF	96.12	77.16	86.64	70.00	10.00	85.71
14.	HZL	93.77	83.74	88.76	85.00	16.00	81.18
15.	HMT	60.94	52.30	56.62	46.00	21.00	54.35
16.	IPCL	107.14	101.30	104.22	175.00	37.00	78.86
17.	IRCON	250.00	208.00	229.00	440.00	303.00	31.14
18.	ITI	80.80	69.38	75.09	100.00	35.00	65.00
19.	MRL	73.95	56.55	65.25	65.00	32.00	50.77
20.	MTNL	79.57	68.18	73.88	57.00	22.00	61.40
21.	MMTC	225.17	210.33	217.75	204.00	93.00	54.41
22.	NALCO	35.18	21.17	28.18	38.00	10.00	73.68
23.	NLC	84.47	72.38	78.43	57.00	11.00	80.70
24.	RCF	94.37	66.30	80.34	64.00	13.00	79.69
25.	SCI	63.58	36.44	50.01	75.00	22.00	70.67
26.	NFL	63.88	38.27	51.08	65.00	10.00	84.62
27.	STC	74.96	63.17	69.07	123.00	96.00	21.95
28.	SAIL	35.00	35.00	35.00	35.00	10.00	71.43
29.	VSNL	264.24	249.62	256.93	220.00	77.00	65.00
30.	CRL	NOT RECOMMENDED			145.00	58.00	60.00

ANNEXURE-III

(Referred to in Paragraph 5.12)

Statement showing the market price via-a-vis the average price at which the shares of selected PSEs were disinvested

Sl. No.	Name of the PSE	Reserve price of share originally fixed during 14-18th December, 1991	Revised Reserve price fixed for 1st stage of disinvestment in December 1991 — NAV+ PECV at 10% cap. rate	Reserve price fixed for second phase of disinvestment in February 1992 (ICICI)	Average price at which share value of Rs. 10/ was sold	Market price as per Economic Times 31.10.92 — Closing price 30.10.92	Market price as per Economic Times 31.10.92 — 52nd week — High	Market price as per Economic Times 31.10.92 — 52nd week — Low	Market price as per Economic Times 31.10.92 — 52nd week — Average	Gain to financial institutions/mutual funds/banks on lowest of closing price on 30.10..92 or average of 52nd week — Gain per share	Gain to financial institutions/mutual funds/banks on lowest of closing price on 30.10..92 or average of 52nd week — percentage of gain
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.	BPCL	350	181	300	243.89	750	1275	650	962.50	506.11	207.52
2.	BHEL	66	37	37	38.05	140	200	130	165.00	101.95	267.94

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
3.	HCL	70	29	—	25.17	65	65	60	62.50	37.33	148.31
4.	HOCL	132	46	46	56.92	143.75	220	135	177.50	86.83	152.55
5.	HPCL	305	191	225	242.70	550	1200	550	875	307.30	126.62
6.	HZL	85	16	17	21.65	58.75	65	47.50	56.25	34.60	159.82
7.	HMT	46	21	—	18.11	80	85	67.50	76.25	58.14	321.04
8.	SAIL	35	10	12	13.24	42	80	41.25	60.62	28.76	217.22
9.	RCPL	64	13	—	9.87	43.75	55	41	48	33.88	343.26
10.	NLC	57	11	11	11.46	82	NA	NA	—	70.54	615.53

ANNEXURE-IV

(Referred to in Paragraph 5.10)

Statement showing under-realisation of value of PSEs shares in the first and second phase of disinvestment during 1991-92

Sl. No.	Name of PSE	No. of shares disinvested (Face value Rs. 10) (in lakhs)	Percentage of disinvestment to equity	Original reserve price per share fixed Rs.	Average realisation per share Rs.	Under-realisation per share Rs.	Total amount under-realised (Rupees in lakhs)
1.	AY	10.15	13.57	82	NA	—	—
2.	BPCL	100.00	20.00	350	243.89	106.11	10611.00
3.	BHEL	489.52	20.00	66	38.05	27.95	13682.08
4.	BEL	160.00	20.00	80	30.00	50.00	8000.00
5.	BRPL	399.61	20.00	55	30.75	24.25	9690.54
6.	BEML	60.00	20.00	225	148.31	76.69	4601.40
7.	CRL	42.19	10.01	145	98.40	46.60	1966.05
8.	CMC	25.28	16.69	75	8.00	67.00	1693.76
9.	DCI	4.02	1.44	132	10.00	122.00	490.44
10.	FACT	52.32	1.54	70	10.00	60.00	3139.20
11.	HPCL	127.68	20.00	305	242.70	62.30	7954.46
12.	HCL	16.69	3.64	70	25.17	44.83	748.21
13.	HMT	42.68	5.43	46	18.11	27.89	1190.35
14.	HPF	191.90	16.05	70	8.00	62.00	11897.80
15.	HZL	807.46	20.00	85	21.65	63.35	51152.59
16.	HOCL	98.70	20.00	132	56.92	75.08	7410.40
17.	IPCL	372.00	20.00	175	65.24	109.76	40830.72
18.	IRCON	0.13	0.27	440	225.00	215.00	27.95
19.	ITI	175.38	20.00	100	49.45	50.55	8865.46
20.	MTNL	1200.00	20.00	57	46.26	10.74	12888.00
21.	MRL	193.16	20.00	65	39.63	25.37	4900.47
22.	MMTC	3.34	0.67	204	93.00	111.00	370.74
23.	NALCO	351.00	2.72	38	13.13	24.87	8729.37
24.	NFL	111.63	2.28	65	8.46	56.54	6311.56
25.	NLC	717.91	5.00	57	11.46	45.54	32693.62
26.	RCFL	311.36	5.64	64	9.87	54.13	16853.92
27.	STC	23.93	7.98	123	67.00	56.00	1340.08
28.	SCI	522.46	20.00	75	34.41	40.59	21206.65
29.	SAIL	1990.75	5.00	35	13.24	21.76	43318.72
30.	VSNL	120.00	20.00	220	123.29	96.71	11605.20
	TOTAL:	8721.25					344170.74

APPENDIX-III

Statements furnished by Audit

(*vide* para 103)

ANNEXURE-I

Statement showing the names of PSEs where DCF share value was not the highest

Face value Rs. 10 of share

Sl. No.	Name of PSE	MAV II	PECV at industry Capitalisation rate	D C F	
				WACS	At 12%
1.	MMTC	70.01	190.08	48.86	102.33
2.	STC	109.61	135.79	55.20	97.10
3.	IRCON	333.12	547.00	328.87	316.57
4.	MRL	18.75	59.36	14.88	19.96
5.	HPCL	123.86	378.12	66.35	172.97
6.	BPCL	117.40	357.90	215.01	239.85
7.	BHEL	32.33	70.60	61.09	21.75
8.	CRL	36.53	106.56	79.41	60.20
9.	BEML	114.38	280.70	161.37	104.78
10.	MSTCL	253.35	880.68	221.98	360.94

ANNEXURE II

List of PSEs whose original reference calculation did not incorporate DCF value price

Sl. No.	Name of PSE	Reference Price calculated as an average
1.	BPCL	PECV and Consultant value
3.	Cochin Refineries	PECV and Consultant value
3.	HPCL	PECV and Consultant value
4.	IRCON	CV
5.	Madras Refineries	PECV and Consultant value
6.	MMTC	PECV and Consultant value
7.	STC	PECV and NAV

ANNEXURE III

Comparison of gross cash flow projections incorporated in DCF valuation vis-a-vis actual audited performance during 1991-92 and 1992-93 in respect of same PSEs whose reserve prices were based on DCF values.

Name of PSE	Net profit plus interest plus depreciation (Rs. in lakhs)			
	1991-92		1992-93	
	Projection	Actual	Projection	Actual
BRPL	6087	9981	6760	8585
BEL	16803	12216	26450	14959
HMT	8854	10425	11805	9665
HZL	18611	20306	24555	21982
IPCL	33600	43860	61400	60625
NALCO	41200	51646	46800	46990
NFL	17426	21729	16781	23176
SAIL	119800	150184	145900	179963
SCI	31964	33357	43798	37574

APPENDIX IV

(Vide para 156)

Extracts from Second Report of the Janaki Raman Committee to Enquire into the Securities Transactions of the Banks and Financial Institutions (APPOINTED BY RBI)

V. *Public Sector Enterprises Equity Bids.*

1. (a) In February 1992, the Ministry of Industry, Department of Public Enterprises of the Government of India issued letters to approved financial/investment institutions, mutual funds and nationalised banks inviting bids for purchase of a part of the shares held by the Government of India in 16 Central Public Sector Enterprises (PSEs). For the purposes of the sale all the PSEs were grouped into 120 bundles of different company combinations.

(b) The terms and conditions of the offer specified *inter-alia* that:

"* * *

(14) The shares of all the PSEs offered for sale shall be listed out on all principal Stock Exchanges in the country. CCI has already issued necessary guidelines to all the Stock Exchanges in the country to permit listing of shares of Central PSEs, irrespective of the level of disinvestment by the Government.

(15) The financial institutions/mutual funds/banks shall be free to offload their shareholding in these PSEs through the normal Stock Exchange transactions.

* * *"

2. In the course of scrutiny by the RBI officials, it has been seen that Allahabad Bank and SBI Caps have made bids for the bundles and have been successful.

3. (a) In the case of Allahabad Bank, it made a bid for and acquired on 22 February, 1992 two bundles for Rs. 13.01 crores each and sold the same for Rs. 20.25 crores and Rs. 20.06 crores respectively on 31 March, 1992. It booked a net profit (after expenses) of Rs. 14.17 crores.

(b) It was however seen that even before it made the bid, the bank had received quotations from three brokers, namely M/s. Stewart & Co., M/s. C. Mackertich and M/s. Y.S.N. Shares and Securities Pvt. Ltd., for resale of the shares for which it was bidding. The three brokers are believed to have close business connections with one another. The sale was ultimately made on 31 March 1992 to the broker, M/s. Y.S. N. Shares and Securities Pvt. Ltd. which had by its letter dated 19 February 1992 undertaken to

conclude the entire business by 31 March 1992. The brokers' letters giving the quotations clearly indicate that the brokers' bids were being made on behalf of their clients. The broker in turn has sold one of the bundles to Citi bank.

(c) From a scrutiny of the records of Citi bank it is seen that the bundle was acquired by Citi bank on 2 April 1992 for the account of one of its fiduciary clients.

4. (a) In the case of SBI Caps, the company made a bid in February 1992 and acquired three bundles for an aggregate cost of Rs. 39.62 crores. Payment for the purchase was made on 28 February 1992.

(b) The company sold two of the bundles under package deals to two brokers M/s. C. Mackertich and M/s. Stewart & Co. These sales were made on the basis of confirmatory letters dated 4 March 1992 and 11 March 1992 respectively received from the brokers.

(c) The deal with M/s. C. Mackertich was to sell the bundle at cost Rs. 13.12 crores and also sell 13% PSU bonds of an aggregate face value of Rs. 202.50 crores at par. Similarly, the deal with M/s. Stewart & Co. was to sell one bundle at cost Rs. 13.12 crores and also sell 13% PSU bonds of an aggregate face value of Rs. 102.50 crores at par. As mentioned in a memorandum dated 21 April 1992 to the Committee of Directors, the purpose of the sales was to avoid booking a loss on the PSU bonds for which there were no buyers at that time even at 20% discount.

(d) It was seen that 13% PSU bonds of the face value of Rs. 202.50 crores have infact been sold to Bank of Amercia (BOA) and Canfina at par and not to the brokers. BOA has in turn sold most of the bonds at a discount of Rs. 15/-per bond (as against the discount of Rs. 20/- mentioned in the note to the Committee of Directors). Canfina has recorded the purchase in its books at Rs. 90/- per bond and the balance of Rs. 10/- per bond has been received by Canfina from the broker, M/s. C. Mackertich.

5. Though both Allahabad Bank and SBI Caps have made substantial profits by the purchase and sale of the PSE shares, the following matters need to be noted:

(a) The sales were clearly violative of condition 15 of the terms and conditions on which bids were invited, which required that the off loading of the shareholding shall be through normal Stock Exchange transactions.

(b) In the case of Allahabad Bank at least, it is clear that there was a rior arrangement to sell the shares and that the bank only acted as a conduit for making the bid. It is possible that similar arrangement existed in the case of SBI Caps also, since the brokers concerned had made similar bids to Allahabad Bank.

(c) By not waiting for the shares to be listed and for a market price to be established, the bank and the company were not in a position to judge

whether the negotiated price for the sale was the best price that it could have obtained for the sale of the PSE shares. This has particular significance when it is considered that the brokers involved in the transactions with the bank and the company had close business connections and appeared to have shared the business.

APPENDIX V

Statement of Observations and Recommendations

Sl. No.	Para No.	Mini./Deptt. concerned	Recommendations/Conclusions
1	2	3	4
1.	165	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	the Industrial Policy Resolution, 1956 gave the public sector a strategic role in the process of development. In pursuit of this Objective, massive investments have been made over the past four decades to build a public sector which had a commanding role in the economy. The total investment in 246 Public Sector Enterprises (PSEs) as on 31.3.1991 was Rs. 113,896.13 crores. The profit earned by these PSEs during 1990-91 was however, Rs. 2,567.74 crores of which significant component was from oil sector and the dividend paid was a mere Rs. 364.86 crores ironically, while one of the objectives envisaged in the Industrial Policy Resolution, 1956, for public sector was *inter alia* "to earn return on investment and thus generate resources for development", and while, in accordance with the policy, investment from the exchequer in PSEs witnessed consistent growth from Rs. 29 crores in the first five year plan to Rs. 99,329 crores in 244 PSEs by the end of the 7th five year plan and to Rs. 113.245 crores in 246 PSEs as on 31.3.91, return on the investment remained too low to conform to even the most minimum norms of return in commercial activities. As in 1989-90, the ratio of Net Profit to Capital Employed showed an average of 4.5% which was an increase from 2.73% registered in 1985-86. Out of 244 PSEs existing at the end of the 7th five year plan, 131 PSEs earned on average a profit of 8%, 98 PSEs registered a loss of over 16%. As many as

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			58 PSEs assumed the status of sick and chronically sick enterprises with their accumulated loss causing invariably a drainage of scarce financial resources from the exchequer every year.
2.	166	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The suggestions for disinvestment of Government shareholding in PSEs had been under consideration of the Government in different forms atleast since May, 1990. But the first public pronouncement of the Government decision to disinvest upto 20 per cent of its equity in selected PSEs was made on 4th March, 1991 at the time of presentation of Central Government's Interim Budget for 1991-92. Subsequently, the Union Government announced in their statement on Industrial Policy on 24.7.1991 and in the Union Budget for 1991-92 presented on the same day that apart from ravitalising the public sector, a part of the Government shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers so as to raise resources and encourage wider public participation. The Union Budget for 1991-92 provided for receipts of Rs. 2500 crores on this account. In pursuance of the above, Government carried out partial disinvestment in two phases in December, 1991 and February, 1992 and realised a sum of Rs. 3038 crores from the sale proceeds of the shares held by Government in 30 selected PSEs. The disinvestment programme was carried out by the Department of Public Enterprises (DPE) in association with the Ministry of Finance (MOF) and other Government agencies concerned. The audit review based on findings noticed in the course of test audit of the records of the DPE

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			and further examination of the subject by the Committee have revealed a number of inadequacies and disquieting features in the implementation of the disinvestment process which are dealt with in the succeeding paragraphs.
	16	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that out of the 244 PSEs, only 31 out of 131 profit making concerns were finally selected for disinvestment during 1991-92. According to the note placed before the CCEA on 20.11.1991 the disinvestment was to be done to Investment Institutions/Financial Institutions/Mutual Funds/Nationalised Banks. The selection of PSEs was proposed to be done by the DPE in close consultation with the concerned PSEs, the Administrative Ministries, the Planning Commission and the Ministry of Finance. The Committee's examination has however revealed that while a number of PSEs and their Administrative Ministries had suggested exclusion of some of the PSEs from the proposed disinvestment on specific and convincing grounds, their suggestions were not given due consideration. The Committee, in this regard, took note of the comments made by both the Finance Secretary and the then Secretary (DPE) in their depositions, about the general reluctance among the Executives of PSEs as well as among the authorities of their Administrative Ministries to agree with disinvestment fearing it would result in interferance with their personal comforts and erosion of their authority. They also deposed that, final decision about disposal of shares of PSEs had to be taken by Government, being its owners, and not by the Executives of the PSEs. The Committee have difficulty in accepting his contention. This indicates the attitude of the Ministry of Finance towards the opinion of the PSEs and their administrative ministries concerned. Even in the note for CCEA on 24.12.91, the Ministry of Finance did not

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			elaborate its reasoning too well against the objections/reservations raised by some Administrative Ministries in regard to disinvestment of shares of their respective PSEs, but simply stated that the shares of those PSEs, could not be excluded from disinvestment. The Committee, at this stage, can only express their concern over the unsatisfactory manner in which selection of PSEs was made for the disinvestment exercise undertaken during 1991-92.
4.	168.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee find that for formulation of guidelines for valuation of shares of PSEs, a Committee under the then Secretary, DPE was constituted on 19th August, 1991 and this Valuation Committee submitted its report in September, 1991. The Committee are surprised over the casual manner in which the Valuation Committee functioned. The Valuation Committee was to be assisted by Financial Advisers (FAs) on the Ministries as representative of the department of Expenditure. However, they were not associated on the ground that the valuation Committee had very little time and the selection of PSEs had not been finally completed. The Valuation Committee had only two sittings on 26th and 30th August, 1991 which was attended only by a few members. No Minutes of the discussions held at the sittings of the Committee were maintained. As deposed by the then Secretary (DPE), the Report was not considered in detail at a meeting of the Committee and it was got approved even by circulation among some members of the Committee only. It was signed by only 4 out of 14 members of the Committee including 6 co-opted Members. Interestingly one of the signatories was not even a member of the valuation Committee and signed on behalf of a member of the Committee namely, Secretary in the Department of Chemicals & Petrochemicals.

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			The Committee are extremely unhappy over the manner in which the work of the Committee was carried out. During evidence the then Secretary (DPE) informed the Committee that he did not consider it necessary to obtain the signature of co-opted members as he could not waste his time in circulating the Report to them. He also observed that "everybody is unwilling to take part (in the disinvestment process). Especially, the bureaucrat and the public sector chief were unwilling because they did not want their comfortable lives to change." The Committee also find that some of the important suggestions of the members of the Valuation Committee which could have had important bearing on the proposed disinvestment were not incorporated in the report of that Committee. These included broadening of the base by offering the shares to approved share brokers, public limited companies, approved pension funds, revaluing the shares of PSEs, etc. The Finance Secretary during his deposition before the Committee also stated that "the Suresh Kumar Committee did not give us any unambiguous guidance". From these facts, the Committee can only conclude that the then Secretary (DPE) who was Chairman of the Committee inexplicably functioned in an arbitrary and casual manner and the Committee failed to fulfil the objective for which it was set up.
5.	169.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that the Valuation Committee headed by the then Secretary (DPE) had recommended that certain expert agencies using different methods for equity price determination could also be consulted by the Government before finalising the offer price for shares of PSEs. The Government, accordingly, appointed in September 1991, Strategic Consultants Pvt. Ltd. as consultants to advise on the pricing of shares of selected PSEs. The Committee have been informed that two

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			consultancy firms namely Strategic Consultants and Coopers & Lybrand Pvt. Ltd. were already in touch with the DPE and were mentioned in the report of the Valuation Committee. Although other consultancy firms were also stated to have offered their services to the DPE, Strategic Consultants were appointed as they were stated to have the required experience and the offer given by them was also found reasonable by the Department. The Committee would like to point out in this connection that no specified criteria was laid down about the qualifications of the Consultants and there were no records to establish that the offers made by various consultants were properly evaluated. The Consultants submitted their report in three batches on 10th, 12th and 18th December, 1991. The Committee are perturbed to observe that the recommendations of private consultant based on the prevalent state of stock market specific to the industry in which each PSE could be classified were not finally made use of by the Government to their best commercial advantage and the entire expenditure of Rs. 4.06 lakhs incurred on them was ultimately rendered infructous.
6.	170.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee are surprised to find that the Government decided to offer for sale the shares of selected PSEs by adopting an unprecedented and unique method of offering the shares in the form of bundles consisting of nine PSEs, from each category, *viz.* very good, good and average. The Committee have been informed during evidence that the proposal for sale of shares of PSEs in bundles was taken up before the CCEA by the Ministry of Finance and the main reason for bundling of shares was to ensure that the good enterprises were disinvested alongwith those which were "less investor fancy". The institutional buyers did their own valuation for shares of various PSEs and made composite bids for the bundle as a

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			whole. The Committee are in no doubt that the sale of shares in bundles had affected substantially the transparency of the transactions. While the Committee find no perceptible gains from bundling, they are convinced that this method made it difficult even for the Government to assess the bids received in right perspective and finally determine a fair reference unit price for each PSEs share, as would be seen from the subsequent paragraphs. Clearly, the natural price level of shares could not emerge from this unusual method and the sale in bundles had the effect of depressing the value realisations which had obviously done more harm than the expected advantage of clearing the sale of shares of average PSEs alongwith the 'very good' and 'Good' PSEs. During evidence, the Finance Secretary admitted, "in retrospect our assessment is that the best way of selling the shares to get the highest possible price is really to sell them individually". The Committee do not wish to add anything to his own admission of adoption of a wrong procedure.
7.	171.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that the Government approval in November, 1991 envisaged that the Valuation of shares of PSEs would be according to the three methods of Net Asset Value (NAV), Profit Earning Capacity Value (PECV) and Discounted Cash Flow Value (DCF) and the average of the two highest values so obtained would be taken as the fair value or reserve price for that PSEs shares. It was also contemplated that the total value of the equity in each bundle would be about Rs. 5 crores based on the fair value of shares of each PSE. Strangely enough, the valuation of the shares in the bundles was not made on the basis of the methods enunciated above. The DPE constituted 825 bundles of the shares of selected PSEs for sale keeping the value of each bundle around Rs. 5 crores merely on an estimated

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			basis keeping in view only the NAV and PECV. Even though the DCF value was admittedly received from most of the PSEs before the date on which notice inviting bids was issued *viz.*, 10.12.1991, these values were not at all used for determining reserve prices of the PSEs shares on the ground that DCF values required detailed checking. The Committee are surprised that instead of valuing the shares in accordance with the method as envisaged, the DPE hastened with Notice inviting bids for the sale of the 825 bundles prepared on the basis of tentative values. During his deposition, the then Dy. Director (Costs) in DPE informed the Committee that he got instructions from the then Secretary (DPE) for preparing bundles on estimated value. Curiously enough, there is no record in the DPE to suggest the formula on the basis of which tentative prices were worked out. What is more specious is the plea put forth by the then Dy. Director (Costs) in the DPE during his deposition that the tentative values were "adopted for the convenience of preparation of bundles."
8.	172.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	Subsequently, when the reserve prices were actually fixed between 14th to 18th December, 1991 in consultations with PSEs; their administrative Ministries and the MOF on the basis of earlier decisions of Government and also by taking into account the price range recommended by the Private Consultants, the value of bundles varied so much that 129 bundles had value above Rs. 10 crores each and 691 bundles had value ranging between Rs. 8 to 10 crores each. The Committee's examination has also revealed that value of bundles No. 787 on the basis of reserve price so fixed touched a figure as high as Rs. 14.02 crores. Considering the fact that a cardinal principle for calculating the fair value of shares of each PSE was already laid down and a decision taken by the Government to constitute

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		bundles of value of Rs. 5 crores each, the Committee view seriously the aberrations on the part of the then Secretary (DEP) in constituting bundles at the tentative and estimated value in an unauthorised and arbitrary manner.
173.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	Yet another disquieting aspect observed about formation of bundles by the Committee is that in contravention of the Government decision to off-load the shares directly to mutual funds, financial institutions at the market price in the case of PSEs already listed on the Stock exchanges, the shares of two such Companies namely Cochin Refineries Ltd. (CRL) and Andrew Yule (AY) were also included in the bundels for sale. The argument put forth by the DPE that "the shares of these PSEs were being traded at sporadic interval in relatively small lots" is incorrect and therefore not at all acceptable to the Committee especially in case of shares of CRL whose shares were not only being traded in high volume at Cochin Stock Exchange during the three months preceding the disinvestment but also upgraded to the specified group on Bombay Stock Exchange on 3.1.1992 due to the large trading volumes and liquidity. The Committee are also not inclined to accept another plea of the DPE that it was decided that the inclusion of these PSEs would serve as a sweetner for the bundles and thereby generate active interest in bidding. In the opinion of the Committee, this case clearly reveals the scant regard shown by the DPE in following Government decisions in regard to formation of bundles containing shares of PSEs. The Committee therefore, recommend that Government should undertake a thorough probe to identify the appropriate level at which this lapse had occurred and fix responsibility for the same.

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10.	174.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that the Finance Minister in his budget speech on 24.7.1991 had stated that Government proposed to raise Rs. 2500 crores from disinvestment of its equity in selected PSEs during 1991-92. Obviously, this was known to the institutional buyers. The DPE themselves had anticipated that the institutions from whom bids were invited intended to buy shares worth no more than Rs. 2000-2500 crores because of financial constraints. In the circumstances, the Committee consider it strange that rather than restricting the sale of PSE shares to a level consistent with Government proposals or in proportion to the anticipated funds available with the institutional buyers, the DPE in an unauthorised and imprudent manner chose to offer shares worth much higher in magnitude. The bids were also invited from mutual funds/investment institutions only and not from nationalised banks as mentioned in CCEA note dated 20.11.1991. Consequently, uncompetitive bids numbering only 710 for 533 bundles for a total value of Rs. 2300.84 crores were received in the DPE. In the absence of any appraisal of financial capability and the bidding power of the various institutional buyers, 72.61 per cent of the bundels had only one bidder, 22.89 per cent of the bundles had two bidders and it was only in 4.50 per cent cases that three or more bids were received. Surprisingly, 76 per cent of the total bids were made by two institutions and the remaining seven institutions taken together contributed only 24 per cent of the bids. The Committee are dismayed to note that as against the lowest reserve price of a bundle of Rs. 6.99 crores and the highest reserve price of Rs. 14.02 crores, the highest value of bid for a bundle was only Rs. 4.97 crores. Despite the bids being highly non-competitive with 387 bundles having only one bidder and two institutions virtually dictating the prices, the Committee are

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			amazed to observe that the Government did not chose scrapping the bids.
11.	.175.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee find that after the receipt of bids which were found to be much below the reserve price fixed for each bundle, various alternative were discussed by the officers of the Ministry of Finance with Finance Minister on 19.12.1991. One of the suggestions was that since for about 300, or so bundles only one bid had come in and none for another 300, these bids should be rejected as they were only single offers and better bids could come in if the bundles were reoffered. Another suggestions was to reject all the bids, rebasket the bundles and re-offer them to all. Yet another proposal made was that the PSEs share should be sold individually to get the best offers instead of bundling them. The Committee are dismayed to find that all these alternatives were rejected and the Ministry of Finance went in with the proposal to CCEA for acceptance of the bids received for 533 bundles by suggesting refixation of the reserve prices in a manner which resulted in lowering of the reserve prices to the extent of around 64% of the original reserve prices. The Committee strongly disapprove of the action taken by the Ministry which resulted in potential gains to the bidders at the cost of the Exchequer.
12.	176.	-Do.-	The Committee further note that having taken the questionable decision to proceed with the uncompetitive bids received, an exercise was undertaken to revalue the shares, perhaps with reference to the bids received. From the copies of the computer print outs scrutinised by the Committee, it was seen that DPE undertook an exercise for valuing bundles on the basis of the 'High' and 'Low' prices of shares as recommended by the private consultants appointed by the Government and also on an average of NAV and PECV at industry capitalisation rates. However, this was coming

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			fairly close to the reserve prices arrived at by the Government. Further even the value of bundles on the basis of average of NAV and PECV at industry capitalisation rate was found to be higher than the bid prices. In the circumstances DPE proposed to refix reserve prices on an average of NAV and PECV at a uniform capitalisation rate of 10 per cent instead of at industry-wise capitalisation rate. The net result of adoption of a revised method of valuation was that the reserve prices of PSEs shares were drastrically reduced to an extent ranging between 21.95 per cent to 86.67 per cent. In 24 of the 31 cases the reduction in value was above 50 per cent. In the light of the facts narrated above, the Committee regret to conclude that the entire exercise of valuing shares by adopting a revised method was deliberately resorted in order to accommodate the bids received. Obviously, the overriding consideration of raising funds before the end of December, 1991 took precedence over the larger interest of public exchequer.
13.	177	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that while recommending the revised method of valuation, the Ministry of Finance in their note dated 24.12.1991 took the pleas that the proposed procedure was in line with CCI guidelines. In this context, the Committee would like to highlight the specific observations made by the Suresh Kumar Committee in its report that "the disinvestment of Government share holdings in PSEs in a sale by a shareholder to a buyer. Therefore, the guidelines issued by the Controller of Capital Issues (CCI), Department of Economic Affairs for valuation of equity shares of public companies are not applicable. The Ministry of Finance themselves had in their note for CCEA dated 20.11.91, had considered the CCI guidelines as "not suitable for the scheme of disinvestment of shares of PSEs" as "these guidelines generally underprice the shares". Since application of CCI guidelines for valuation of PSE shares for the disinvestment

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			proposal was not considered to be relevant right from the beginning, the Committee are not convinced of the subsequent turn-around in the approach of the Ministry of Finance on the issue. The Committee are led to conclude that the Ministry of Finance failed to advise the CCEA in the right perspective and they cannot absolve themselves of this responsibility.
14.	178	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee are also constrained to point out that the Ministry of Finance did not apprise the CCEA about the extent to which the reserve prices of PSEs fixed on the basis of earlier Government decisions would be reduced as a result of change over to a new formula based on CCI guidelines and by adopting a uniform capitalisation rate of 10 per cent. The Committee's analysis of the 16 bundles revealed that the reserve price of these 16 bundles which were originally fixed at Rs. 155.72 crores were reduced to Rs. 49.40 crores after reserve prices were refixed by adopting the new formula envisaged on 24.12.1991. In the opinion of the Committee, this tellingly shocking extent of reduction of Rs. 106.32 crores in 16 bundles speaks volume about the ultimate reduction effected in the reserve price of the bundles offered for sale in December, 1991. During this evidence the Finance Secretary deposed before the Committee that the Cabinet was not informed as to what was the particular price that came out of a particular formula. In extenuation he also stated, "even in the earlier Cabinet note only the formula was discussed". The Committee are unable to accept this plea. They consider it deplorable that such substantial financial implications involved in valuation of PSEs share were not brought to the notice of CCEA at the time of submitting the proposal for final approval of the Government While agreeing with the assertion made by the Finance Secretary during evidence that "Cabinet does not decide individual price", the Committee are

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			of the firm opinion that this aspect involved a major policy decision of calculating fair market value of PSEs shares involving thousands of crores of rupees and thus all relevant facts and figures were required to be placed before the CCEA for complete appraisal. That this was not done speaks of the manner in which the Ministry of Finance preferred to brief the CCEA on such a crucial issue of national importance and having substantial financial implications.
15.	179	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committe would also like to point out certain other aspect arising out of the note placed before the Cabinet on 24.12.1991. One of the arguments adduced by the MOF for adopting a new valuation procedure was that the valuation price fixed earlier were *inter-alia*, based on DCF values provided by PSEs which according to the Ministry were based on optimistic cash flow projections and the reference price computed earlier might not be realistic. Since this method was suggested by the MOF themselves after due consideration and included in the CCEA note dated 20.11.1991, the Committee consider this argument to be only an afterthought. As the DCF value projections were based on MOUs reached with the PSEs, the Committee are surprised at the deposition made by Finance Secretary during evidence that "we discovered later on that MOUs were based on unrealistic assumptions about how much resources will be made available.
16.	180	-do-	Another disquieting aspect observed by the Committee was that the new formula envisaged computation of PEC value a uniform capitalisation rate of 10 per cent. The Committee wonder whether application of a uniform capitalisation rate was appropriate considering the fact that the PSE selected for disinvestment differed widely in terms of their investment base, profitability, market conditions, etc.

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17.	181	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee have been informed that for determining the reserve price of PSEs shares in the second phase of disinvestment, the DPE obtained the advice of the Industrial Credit and Investment Corporation of India Ltd. (ICICI). Based on the recommendations made by the ICICI, the DPE prepared a revised list of 16 PSEs out of 31 selected PSEs for disinvestment and their valuation was done with reference to the recommended prices of ICICI. The valuation of the shares by ICICI as admitted by them was arrived at without scrutinising in detail the profitability projections given by the companies and also by not taking into account the major changes in the future plans of the PSEs. Since those considerations had an important bearing on the prices of shares, the Committee are surprised that it was not found necessary to further examine the inputs provided by ICICI in order to arrive at a more realistic price. It is also pertinent in this connection that the prices fixed on the basis of recommendation of ICICI was much lower than the reserved prices worked out originally.
18.	182	-do-	The Committee further note that while Notice inviting bids for the Second tranche was issued to 36 financial investment institutions/mutual funds/merchant banks on 11 February 1992 for fresh 120 bundles with its reserve price fixed uniformly at Rs. 10.08 crores per bundle, only 273 bids were received from 19 institutions for all the 120 bundles and it was only in 35 per cent cases where three or more bids were received. Surprisingly, four bidders had contributed 68 per cent of the total bids made. From the foregoing, the Committee regret to conclude that no lessons were learnt by the DPE from their past experience and no efforts were made to prepare the bundles with smaller values so as to enable larger participation in bidding.

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19.	183	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee's examination has revealed that Steel Authority of India Ltd. (SAIL) was included in the disinvestment programme during 1991-92 in the first and second tranche against the advice of the Ministry of Steel which had felt that disinvestment of shares of SAIL might not be appropriate mainly on the grounds that the market perceptions for those shares were likely to improve during next 2-3 years as a result of decontrol of iron and steel prices and the completion of the on going modernisation of the steel plant projects and that the Government would stand to lose as none of the three methods originally suggested for valuation of shares would reflect the real value of its shares. During evidence the Committee were informed by the Finance Secretary that the concern of SAIL was reflected before the CCEA who took a "conscious decision" to limit the dinsivestment of shares of SAIL to 5 per cent. The Committee will however like to point out that despite the disinvestment of the shares of SAIL being limited to 5 per cent, it actually represented around 23 per cent of the total number of shares of all the 30 PSEs disinvested during 1991-92 since the paid up capital of the SAIL was very high. The Committee further note that although the decontrol of steel prices was announced on 16.1.1992, SAIL was not excluded from the second phase of disinvestment. The DPE maintained that the impact of any change in Government control could be perceived only when considerable trading of the shares had taken place in the market and that the ICICI had taken into account the impact of decontrol while recommending the price of shares of SAIL for second tranche. It is unfortunate that DPE went on record to say that the ICICI had taken into account the impact of decontrol of steel while recommending the price of shares of SAIL which in contrary to the facts placed before the

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			Committee as the ICICI had categorically stated that the reassessment of issue price of SAIL was possible after scrutiny of the impact of steel decontrol. The Committee deplore this wrong statement. The Committee also find that the impact of decontrol of iron and steel on shares of steel industries was noticeable immediately after decontrol when the share price of TISCO had jumped up by almost Rs. 50. In view of the foregoing, the Committee are unable to understand as to why the shares of SAIL were included in the second phase and how the reserves price of Rs. 10-12 for a share of SAIL as adopted in the first tranche during December, 1991 was also adopted in the second tranche when Government had already announced its decision to decontrol the steel prices. Obviously, the whole issue was dealt with in a manner detrimental to the revenue interests of the Government and calls for a plausible explanation.
20.	184	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	Another disturbing aspect noticed by the Committee was that the disinvestment process was not preceded by adequate publicity. No efforts were made to publicise the maiden venture of the Government so as to attract the favourable market response. The gains that could have been achieved by doing so can well be visualised in terms of what Indian Petrochemical Corporation Ltd. actually achieved subsequently in November, 1992 when their public issue for fresh equity shares of Rs. 10 each for cash at a premium of Rs. 150 per share was fully subscribed closing on the earliest date despite the stock market being bearish in the post scam period.

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21.	185	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	From the facts stated above, it is abundantly clear that the disinvestment of Government shareholding in selected PSEs during 1991-92 entailed loss of sizeable magnitude to the public exchequer. The Report of the C&AG has estimated that the reduction in original reserve prices resulted in under realisation of value to the extent of Rs. 3442 crores, while the precise extent of loss could be anybody's guess, the Committee consider it relevant to draw attention to the following facts which are clearly indicative of lower realisations: (i) The market prices of shares of 10 PSEs whose shares were listed as at the end of October, 1992 revealed that in 6 cases the reserve prices originally fixed under NAV, PECV, DCF and consultant's method were also lower than the ruling market price. According to Audit, the potential gain in October, 1992 to the institutional buyers ranged between 126.62 per cent to 615.53 per cent over the average price at which these shares were sold in the two phases of disinvestment during 1991-92. (ii) In respect of CRL whose 42.19 lakhs share were disinvested, as against the final reserve price of Rs. 58 fixed by Government for each share of face value of Rs. 10, the market prices actually quoted in Bombay Stock Exchange in December, 1991 ranged between 960 and Rs. 1040 (for face value of Rs. 100/- each share). Subsequently, when the shares of CRL were subdivided into face value of Rs. 10 each, the market price had increased manifold touching a high of Rs. 335 in February, 1992, Rs. 375 in April, 1992; and Rs. 665 in September, 1992.

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			(iii) One of the institutional buyers, viz. Allahabad Bank had purchased two Bundles No. 17 and 66 during the second tranche for Rs. 13.01 crores each and had sold the former at Rs. 20.25 crores and the latter at Rs. 20.06 crores both to a stock broker firm which had offered their rates even before the Allahabad Bank had made their bid. This is clearly indicative of the market perception towards the PSEs shares at the relevant time.
22.	186	Ministry of Industry (Deptt. of ~~Public~~ Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that the Chief Advisor (Cost) in the Ministry of Finance as a member of the ~~Valuation~~ Committee, had suggested in August, 1991, that in the absence of market value of the shares of PSEs, the shares might be transfered to selected mutual funds/financial institutions with a stipulation that as and when these shares were offered to general public 90 per cent of the difference of the price gained should be transferred back to the Government, Evidently, there is nothing on record to indicate that this suggestion for inclusion of a clawback provision for sharing of profits was given the consideration that it deserved. In this context, the Committee are unable to appreciate the reply of the DPE that the sharing of subsequent profits would have also required the Government to agree with the sharing of losses and that such a provision could not be imposed without eroding the confidence of the bidders. Significantly, the claw-back provisions have been part of privatisation programme in the U.K. The Committee consider it unfortunate that no efforts were made with a view to protecting the revenue interests of the Government either by the DPE or the MOF to ascertain the practices adopted in this regard in other parts of the world. To say the least, this is yet another instance of the casual manner in which the DPE and the MOF dealt with the various facets of disinvestment exercise undertaken in 1991-92.

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23.	187.	Ministry of Industry (Deptt. of Public Enterprises) & Ministry of Finance (Deptt. of Eco. Affairs)	The Committee note that the terms and conditions of the sale of PSEs shares imposed by the DPE in February, 1992, *inter-alia*, stipulated that shares of all the PSEs offered for sale shall be listed on all principal stock exchanges and that Financial Institutions/ Mutual Funds/Banks shall be free to off-load their shareholdings in these PSEs through normal Stock Exchange transactions. The Committee however, find that two institutional buyers namely, Allahabad Bank and SBI Capital Market Ltd. purchased bundles of shares of PSEs during the second tranche and sold them to certain brokers even before the listing of shares on Stock Exchange. The Committee have been given to understand that the question of breach of Rules in the onward sale of shares by these two institutions is being examined in the Ministry of Finance and also looked into by the CBI. The Committee hope that the Government would take appropriate steps to expedite the enquiry being undertaken by the CBI and apprise the Committee of the action taken thereon.
24.	188.	-do.-	During the course of their examination on 22nd & 23rd November, 1993 Committee had desired to be apprised of the details regarding similar type of transactions having taken place, if any. The Committe cannot but express their displeasure over the failure of the Ministry of Finance to make available the requisite information so far.
25.	189.	-do.-	The Committee note that the DPE had prepared a paper dated 30 July, 1990 for consideration of Cabinet regarding measures

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needed for improving the efficiency and productivity of PSEs and it mentioned *inter alia* that 'as a last resort, where turn around is not possible, closure or disinvestment preferably to workers should be considered in order to improve the overall public sector picture. The Council of Ministers on 31 July, 1990 desired that some innovative suggestions should be considered for raising resources for PSEs including loss making enterprises in need of revamping. Later, in the wake of heavy fiscal deficit in February, 1991 the Cabinet Committee on Political Affairs (CCPA) considered the possibility of raising resources through partial disinvestment in selected PSEs and the first public announcement was made in this regard on 4 March, 1991 at the time of presentation of interim budget of the Union Govt.

In terms of the statement of Industrial Policy and the Budget speech of 24th July, 1991 the main objectives behind partial disinvestment of Government shareholdings in Selected PSEs were to raise resources and encourage wider public participation especially by offering the shares to general public and the workers/ employees of the PSEs. The Committee regret to note that by restricting the sale of PSEs to limited number of financial institutions/mututal funds/merchant banks, the Government could not realise the envisaged objective of wider public participation as the general public and the workers/employees of PSEs were not included in the disinvestment exercise undertaken in 1991-92. The Committee take a serious view of the fact that the Government is still working out the modalities of sale of shares of selected PSEs to their employees. They trust that at least after this Report, the Government will take urgent and appropriate steps in this

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			speech the Finance Minister had stated that this disinvestment would *inter-alia* enhance the availability of resources in the public enterprises. The Committee are unhappy to note that this objective also remained unfulfilled as the resources raised through disinvestment were used for bridging the revenue deficit instead of making available these funds to the PSEs.
26.	190.	Ministry of Industry (Deptt. of Public Enterprises) and Ministry of Finance (Deptt. of Eco. Affairs)	To sum up, the examination of disinvestment programme of Governement Shareholding in selected PSEs during 1991-92 has revealed several shortcomings/irregularities. Briefly, these were: (a) Selection of some PSEs for disinvestment despite the pleas made by some of them/ certain administrative Ministries for exclusion; (b) Delay in finalisation of PSEs for disinvestment and failure to generate investors' enthusiasm; (c) Inadequate functioning of Suresh Kumar Committee; (d) Infructous expenditure incurred in commissioning the services of private consultant; (e) Incorrect method of "bundling" in contravention of Government decisions; (f) Haste in accepting uncompetitive bids; (g) Re-fixation of reserve price to accommodate those bids; (h) Failure to apprise the Cabinet of the effect of the revised reserve prices

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			vis-a-vis earlier reserve prices; (i) Failure to incorporate claw-back provision; and (j) Forward sale of shares before listing and above all failure to achieve the pronounced objectives. During their examination, the representatives of the MOF and the DPE repeatedly pleaded in their defence that the process was unprecedented in the country. The Committee are of considered view that most of the problems/shortcomings could have been avoided if the Government had not chosen to push through the disinvestment with hurry to raise the resources by the end of December, 1991. The Committee are yet to be explained to their satisfaction of the extraordinary pressures which necessitated such grave urgency resulting in incalculable losses due to under-realisations on the sale of the PSE shares. The Committee are convinced that the lack of transparency in the manner in which the whole exercise was undertaken requires to be probed with a view to finding out the persons responsibile for the glaring acts of omissions and commissions in order to fixing responsibility for the same. The Committee would like to be informed of the concrete action taken in the matter within a period of six months.